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EDITORIAL

As We See It

As was to be expected, and doubtless was expected, no little criticism has greeted the imposition of stringent restrictions upon consumer credit. At least some of this opposition is of the extreme variety. Doubtless there will be those who will not like the curtailment of lending for housing construction. Indeed, dissatisfaction is already beginning to make itself evident. So doubtless it will be with whatever other credit limitations are imposed in the months to come—and we are assured that others are on the way.

The disposition of those who defend such regulations is to warn that these so-called indirect controls are more or less certain to be replaced—that is, if they are removed or greatly weakened—by direct controls which the critics will like even less. Price regulations, extensive allocations of materials and possibly of labor, rationing, and other similar measures are said to be "in the cards" if such credit controls do not "stick" or do not prevent "inflation." Precisely how much validity lies in this line of reasoning, we are hardly in a position to say. We venture the opinion that all such matters will be largely determined by the shifting currents of public opinion, which dislikes both controls and rapidly rising costs of living.

What we are perfectly clear about in our minds is that neither indirect nor direct controls of the sort here in question will do what is demanded of them—or at least what should be desired of them. Stringent limitation of the use of credit for selected purposes could curtail spending in the lines affected. It is possible that they in some

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Inflation Impacts On Investments

By RAYMOND RODGERS*
Professor of Banking, New York University, Graduate School of Business Administration

Contending, though inflationary pressures are very great, inflation will not go as far as most people think, due to steps taken and to be taken, Dr. Rodgers looks for higher interest rates, but warns "stocks" are not always safe hedge against inflation. Says real estate mortgage investment situation has improved and concludes that conditions now require careful research and judgment in selecting investments.

The twin specters of inflation and goods shortage once more hang over our economy. These dangers are again uppermost in the minds of our people.


Raymond Rodgers

That inflation is an ever-present danger in a credit economy seems to have been forgotten by many! True, fiscal policies, money management and public debt management may compound the danger; but, even so, there are not enough new elements of danger in the current developments to warrant the pessimistic conclusions of inevitability which so many people seem to have reached. Before embracing such a "gospel of despair," let us analyze the economic realities and potentialities to weed out the fears and formulate the probabilities.

Durable Consumer Goods or Guns?

The target, as the "planners" say, of such an analysis would be the determination of the impact of rearmament on an economy already working at capacity. At the outset, it should be clearly understood that the present boom arises from construction, mainly housing, and from durable consumer goods; rearmament has not yet started to "roll." So far, con-

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*An address by Prof. Rodgers before the General Session of the American Mutual Alliance, Boston, Mass., Nov. 1, 1950.

Problems in Production Race with Russia

By SUMNER H. SLICHTER*
Lamont University Professor, Harvard University

After reviewing production situation evoked by Korean War along with arms race, Professor Slichter estimates an increase in gross national product by end of 1951 of from 6% to 10%. Foresees uncertainty in volume of non-military consumption, but predicts if plant and equipment expenditures are to be financed by non-inflationary methods, a large increase in personal and corporate savings is needed. Favors issue of government bonds having guarantee of fixed purchasing power.

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The amount of additional production required by the defense and foreign military aid program of the United States is uncertain and no really definite figures have been submitted to the public for critical review and discussion. If the number of men in the armed services is raised from about 1.4 million to 3 million and several billions of dollars of foreign military aid are provided, the increase in the continuing outlays on defense and foreign aid will be about $18 billion a year above the fiscal year 1949-50, or more than 6% of the gross national product at the present rate of output. For a year or so the expenditures will be considerably above this rate—how much above will depend upon how rapidly the armed forces are equipped. For a year or so, beginning late in 1951, expenditures on defense and foreign military aid may be about $28 billion a year above the outlays of the fiscal year 1949-50. This increase in expenditures would absorb 10% of the gross national product at the present


Prof. S. H. Slichter

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*An address by Dr. Slichter before the American Management Association, New York City, Oct. 30, 1950.

PENNSYLVANIA TURNPIKE COMMISSION—On pages 10 and 11 will be found some interesting material pertaining to the Commission and recent opening of Philadelphia's extension to the world-famed highway.

The Security I Like Best

A continuous forum in which, each week, a different group of experts in the investment and advisory field from all sections of the country participate and give their reasons for favoring a particular security.

(The articles contained in this forum are not intended to be, nor are they to be regarded, as an offer to sell the securities discussed.)

This Week's Forum Participants and Their Selections

Divco Corporation — Laurence M. Marks, Senior Partner, Laurence M. Marks & Co., New York City. (Page 2)

American Republics Corporation —Norman W. Stewart, Security Analyst, F. S. Smithers & Co., New York City. (Page 2)

LAURENCE M. MARKS

Senior Partner, Laurence M. Marks & Co., Members New York Stock Exchange

(Divco Corporation)

While a great many stocks in the present market are selling above their 1946 highs, there are a few shares of well established corporations which are selling substantially below the levels at which they were selling in the middle of 1946, even though the companies have continued their growth and progress.

Laurence M. Marks

One of these opportunities is the shares of Divco Corporation of Detroit, Mich., which in 1946 sold as high as 28⅜ and are now selling on the New York Stock Exchange around 15.

The Divco Corporation first produced their type of stand-as-you-drive truck in 1927. In 1932 the company was incorporated in Michigan as the Continental Divco Company which was changed in 1936 to the Divco Twin Truck Company, when the company took over the stand-as-you-drive division of the Twin Coach Company of Kent, Ohio. The company changed its name to Divco Corporation in 1944.

The company nas specialized in door-to-door delivery units and at the moment sells the majority of its trucks to the milk industry. The company has shown a steady record of growth, and I am giving below sales and net income figures for 1941 and also the postwar period, 1946, 1947, 1948 and 1949.

The company earned $1.53 a share for the nine months ended July 31, 1950, and it is estimated that the earnings for the fiscal year ending Oct. 31, 1950, will be in excess of $2.20 per share.

From 1936 to 1941 the company showed very steady progress. On Jan. 15, 1942, the government forbade the production of all trucks for commercial usage so Divco during the war period manufactured airplane parts, chiefly stabilizers for Curtiss-Wright. At the close of hostilities the company converted to their former business.

When they reconverted, the company had such a large backlog of orders that it had to devote its time to take care of former customers, chiefly in the milk industry, so it was impossible to develop sales in other industries. The company came to the end of its backlog in 1948, and since that time has not only concentrated on the manufacture of milk trucks but has been selling at an increasingly rapid rate its trucks to bakers, laundries, commercial cleaning and dyeing establishments and other industries for whose use the Divco truck is particularly well designed.

The company has a very strong management. The present President, Ray Long, has been with Divco since 1936 and for a long time was Vice-President in charge of sales. He was elected President in January, 1949. John Nicol II, son of the founder of the company, is Vice-President in charge of sales; George Muma is Vice-President in charge of production and Nathan Fine is Treasurer.

The company is at the moment operating at capacity and has a backlog of orders for over 1,700 trucks.

The company has paid a regular dividend of 40 cents quarterly for over two and one-half years, and at its present price of 15 the yield is most attractive.

Divco is well established in the truck field, and it seems to me its shares are at the moment much underpriced and should show considerable appreciation in the near future.

SALES AND EARNINGS
(Fiscal Years Ended Oct. 31)

	Sales	Net Income	Per Share
1949	$7,950,450	$739,786	$1.64
1948	13,428,462	1,710,348	3.80
1947	10,356,077	1,415,258	3.14
1946	7,223,597	954,138	2.12
1941	4,049,884	477,795	1.06
(Nine Months Ended July 31)			
1950	6,498,086	692,035	1.53
1949	5,678,728	475,449	1.05

NORMAN W. STEWART

Security Analyst, F. S. Smithers & Co., New York City

(American Republics Corp.)

"The Security I Like Best" must measure up to the environment of the moment as well as to the generally accepted investment yardsticks. Primary emphasis in selection must therefore be assigned to protecting purchasing power of invested funds in light of inflationary governmental policies to which we seem clearly committed.

Norman W. Stewart

Superimposed upon this current requirement, other important qualifications for consideration here are prospective growth, essential production, capable management and financial soundness.

While an impressive list of investments might be compiled which satisfy these qualifications to some degree, in my opinion none provides a brighter outlook in qualifying than American Republics Corporation common stock.

Divestments during the past decade have concentrated American Republics in oil and gas production with extensive proven and prospective oil acreage and adequate cash for its development. Sound and profitable use of these resources is provided for through exceptionally able management together with conservative capitalization.

The outstanding growth prospects are provided by these oil and gas operations. Space will permit only a relatively brief review of highlights in this area, but should be adequate to indicate the potential of the company.

The 850,000 acres held in fee jointly with Houston Oil Company is commonly considered the backbone of American Republics. They constitute about half of the company's total holdings of prospective oil and gas land. These fee lands are situated in the Gulf Coast area of Texas and only in the past few years has there been any substantial amount of exploration and drilling. Thus a vast amount of acreage in a general oil area awaits the drill. This area was the scene of a major oil and gas field discovery early in 1949 in East Village Mills, Hardin County.

Recent developments in other areas where American Republics holds leases have further improved the company's position. Most important of these have been (1) the proving of more than two producing zones in the southeastern extension of the Pegasus field in West Texas on fee land leased by American Republics to Republic Natural Gas Company, and (2) continued development of the reef area in West Texas where American Republics has several lease spreads.

Known reserves of American Republics are estimated at 50 to 60 million barrels of oil and roughly 500 billion cubic feet of natural gas.

Reflecting recent concentration on production activities, average daily oil production for 1949 exceeded that for 1948 by 25%, in marked contrast to the curtailed production of most companies last year. Production this year has risen sharply and is expected to reach 12,000 barrels per day, net, by the end of 1950, about twice the 1948 average.

Year	Aver. Daily Net Crude Prod. (Bbls.)
1947	5,297
1948	6,112
1949	7,642
April, 1950	8,300*
August, 1950	10,600*
Current	11,000*

*Approximate.

Earnings have jumped at an even faster tempo as a result of production boosts.

	1948	1949
	(000 omitted)	
Gross Oper. Rev.	$9,589	$11,750
Earned Per Share	$0.92	$1.18

It is anticipated that earnings this year will be more than double those of 1949.

Management changes last August provided American Republics with senior officers of established reputation in oil company management. T. Rieber, President of Barber Oil Company and formerly Board Chairman of the Texas Company, was elected Chairman. Barber Oil owns 29% of American Republics' outstanding stock. A Knox Tyson, the new President, is also well qualified through long experience in the Production Department of Continental Oil Company prior to becoming Vice-President of American Republics several years ago. Cash and governments of $6.6 million on Jan. 1 covered current liabilities five times and provided adequate funds for current developments. Working capital has

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A New Look at Dow's Theory

By ROGER W. BRIDWELL

Partner, Investors Research Company, Santa Barbara, Cal.

After giving interpretations of the Dow Theory, stock market analyst sees difficulty in its application because of irregular sequence of highs and lows of individual stocks. Advocates study of trends of individual stocks along with general average trend as testing Dow's theory.

Unquestionably Dow's Theory is the best known of the numerous devices that have been developed in the ceaseless effort to understand the broad price movements of the stock market. It would probably not be much of an exaggeration to assume that every market analyst who studies the internal action of the stock market received his introduction to the intriguing problem via this familiar route. Certainly there are very few investors who do not have at least a speaking acquaintance with this popular method of interpreting the course of stock prices.

R. W. Bridwell

During the last 30 years, literally millions of words have been written in explanation of the Theory and, more recently, for and against the soundness of its basic assumptions. Without taking sides in the argument, it is enough to note that its followers are legion and often exert a very real, though possibly temporary, influence on the trend of stock prices.

The writings of Robert Rhea and William Peter Hamilton, the most eloquent spokesmen for the Theory, are generally accepted as the clearest explanation of its development and practical application. They outlined definite rules for recognizing the primary trend of stock prices (bull and bear markets) by considering the fluctuation of suitable averages representing the movements of Industrial and Rail stocks.

According to Rhea's definition, the trend of stock prices is considered to be **Up** when: Successive rallies in both averages penetrate preceding high points and ensuing declines terminate above preceding low points. Conversely, failure of rallies to penetrate previous high points, with ensuing declines carrying below former low points establishes the trend as being **Down**.

A Difficulty

A difficulty encountered when applying Dow's Theory is caused by the well-known fact that the various market averages frequently make new highs or new lows in an irregular sequence. Their level—relative to prior months or years—can vary appreciably depending on the proportion of investment grade or speculative issues each contains. Since the Theory is essentially a system for interpreting the movement of market averages, it seems logical to assume that the timing of the bull and bear market signals might also vary considerably, depending on the composition of the averages used.

Apparently neither Rhea nor Hamilton ever systematically applied their primary trend principles to the price movement of individual stocks, and a survey of the literature on the Theory reveals very little mention of such an approach. In spite of this neglect, there is reason to believe that if the Dow Theory methods of establishing the direction of price trends were applied to a sufficient number of representative individual stocks and the number in a well-defined uptrend or downtrend were continuously recorded, the hazards inherent in using a market average would be largely overcome.

The objective would be to develop a procedure which recognized the inception of a major trend sooner than is possible under present Dow Theory practice.

The accuracy of such an assumption can be most satisfactorily tested when the market is in the process of reversing its primary trend. When the trend rules outlined by Rhea are applied individually to a large number of leading stocks at important market turning points, the resulting trend interpretation often differs widely from the orthodox interpretation and appears to offer a more sensitive solution to the problem of detecting major trend turning points.

Individual Stock Trends

Analysis of individual stock trends at the 1946 bull-market top serves to illustrate the possibilities inherent in this approach and reveals strikingly the difference in interpretation possible when the Dow Theory is applied to individual stocks and when it is applied in the usual fashion to the market averages.

You will recall the Dow-Jones Averages (as well as most other popular market averages) made a final bull market top around June 1, 1946. At that time, new highs on the part of both the Industrial and Rail averages definitely confirmed the validity of the Dow Theory bull market which had been in effect for nearly four years. Unfortunately, as it turned out, this also marked the final bull market top, and during the summer the averages gradually eased. A weak rally materialized in August, but failed to reach the spring highs—after which the panic stage of the bear market started on Sept. 3, 1946.

As the decline accelerated in late August, one school of Dow Theorists held that the major trend would be considered **Down** if the intermediate lows of both

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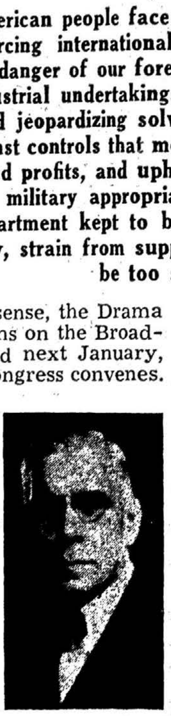
What Controls to Stop Inflation!

By EDWIN G. NOURSE*

Former Chairman, Council of Economic Advisers

Warning American people face responsibility of carrying burden of enforcing international security, former Presidential adviser sees danger of our foreign policy, our military efforts, and our industrial undertakings overcommitting our financial resources and jeopardizing solvency of our monetary system. Advises against controls that meddle with price system, including wages and profits, and upholds fiscal and credit controls. Concludes if military appropriations are frugally scaled and Defense Department kept to business standards of economy and efficiency, strain from supply and demand side need not be too serious.

In a very real sense, the Drama of Tomorrow opens on the Broadway of the World next January, when the 82nd Congress convenes. Then we can take a measure of its revised membership, and of what it has learned by being back among the home folks. Perhaps its old members will have been thinking over recent actions and interpreting current world events under somewhat less hectic conditions than Congress worked in just before recess. These weeks or few months at the end of this year give us all a priceless opportunity to review our thinking, to get a surer feel of tomorrow's drama, and a firmer hold on our parts in the play.



Edwin G. Nourse

If an actor is to give a satisfying interpretation of his part in the drama, he must first seek to get a clear notion of what the basic theme of the play is. For myself, I feel that the keynote of the drama of tomorrow is national security.

Military Insecurity a New Sensation

Well, then, what does national security mean? Until recently, we Americans hadn't thought very hard or felt very deeply about this issue. For nearly a century and a half we had felt secure against foreign aggression and our Civil War had laid at rest the fear of internal breakup. But this complacency was jarred in 1917, when we found ourselves sucked into a world war. Then, after the victory parades were over we soon discovered that the world still wasn't safe for democracy. With World War II, we saw danger visibly approaching our own shores, and saw the impregnable British Empire going down like Gibraltar sinking into the Mediterranean. But last July we came, for the first time, face to face with the stark possibility that the armed forces of the United States could actually lose a war.

It is little wonder, therefore, that in the last three months we have heard in the halls of Congress, in the press and on the radio a clamor for a military program of security which would put us, as one columnist put it, into "World War II½ in order to avoid World War III." Some have screamed for the impeachment or removal of high national officials because we were "utterly unprepared" for the Korean push and have demanded immediate action to preclude the possibility that anything of this sort could ever happen again. This is mere rhetoric, inspired by the hysteria that followed a surprise attack at a remote point by a ruthless enemy.

There have been extreme definitions of what it is that we need to prepare for or be secure against. In a September editorial, I find it stated thus: "The United States is committed globally to enforce the peace and to protect freedoms, and the fact remains that it does not have enough military force to fulfill the commitments already made." This is a quite fantastic statement of what we have indeed undertaken or what we should think of as the objective of national policy from here on.

We have been having some new lessons forced upon us in the hard school of world experience, and Korea is simply the latest, and for a time at least it looked like the bitterest, of the lot. It behooves us therefore to face without flinching the lessons that Korea taught and make that the basis of a sensible and workable program of national security for the years ahead. We have now won a breathing spell, and we should use it to take a more thorough look at Korea in reasonable, even though grim, perspective. In frankly facing the lessons of Korea, however, we do not want, like Mark Twain's cat, "to get more out of the experience than there was in it."

The Meaning of Korea

First, then, Korea certainly added indisputable evidence that we must reckon with a "real and present danger" of Soviet aggression. To many people it proves that the Kremlin had definitely abandoned the old Communist doctrine of ideological warfare and adopted a general policy of outright military imperialism. You have read or heard repeatedly since June 25 that this means that we must be prepared to meet new outbreaks at any time along the whole periphery of the Soviet domain, its satellites, and fellow travelers—perhaps two or three at once. We hear of Stalin's 175, perhaps 200, divisions in being and hear the hundreds of millions of Asia's people referred to as though they were valuable and immediately available military reserves.

Now, I think all this proves too much. Since I am an economist, I speak in terms of logistics or the economic aspect of military power. From that point of view, there are distinct limits on the ability of the Kremlin to sustain the kind and magnitude of effort being talked about if in fact it has decided to turn from Marx to Mars.

It is often said that the Kremlin has waged a war in Korea that cost us dearly and cost them next to nothing, and that it could wage many such wars over a period of years without significant drain upon itself. It is true of course that Russia herself and through her dominated people has an almost limitless amount of cannon fodder. But the day has passed when cannon fodder will win a real war. On the other hand, key materials and industrial machinery are, relatively speaking, an abundant resource with us and a critically scarce one with the Soviets.

In the present war, Russia has been squandering other people's flesh, and has not been able to supply them with enough of the necessary tools of modern war to give them victory or even any great ability to prolong the struggle. One of the most profound lessons of the Korean episode is this confession of industrial weakness on Russia's part even in a situation where it was losing face among the nations where it was most necessary to win prestige, while we were showing that, even in the event of surprise, we had reserves of these materials and that they could be brought into action with greater speed than had ever before been attained in a similar operation.

It is fantastic exaggeration to say we were "utterly unprepared" in Korea. It is of the very nature of war that it is a succession of surprises and crises, and there must be many minor reverses and miscalculations even for a country which has made sound preparation for contingencies. Military technology moves at a fast pace, and strategy and tactics are constantly undergoing revision in the light of the most recent war experience. Until they actually come to grips, neither side knows what the other has dreamed up or how effective its own equipment and plans of campaign will prove to be.

As to the adequacy of our resources, we "had what it took" in Greece four years ago. We "had what it took" (and it was a lot) immediately available to win the Berlin airlift. We "had what it took" with commendably little delay in Korea. Even at the successful end of that campaign we have not taken all our reserve equipment out of mothballs, nor had occasion to use all that actually was taken out. We were, in October of this year, far from being wholly unprepared to meet a fresh attack some place else if anyone had so misinterpreted the Korean affair as to think that another attack would be a smart move.

Stalin himself has given a sounder estimate of the situation than many of our own people by refusing to commit Russian resources in support of the North Koreans and by not forcing Chi-

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*An address by Dr. Nourse before the Associated Industries of Massachusetts, Boston, Mass., Oct. 26, 1950.

Corporate Bonds vs. Municipals

By DAVID M. ELLINWOOD*

Manager, Municipal Department, Moody's Investors Service

Mr. Ellinwood points out contrasting factors in analysis of corporation bonds and municipal securities. Foresees some danger in issuance of municipal bonds secured merely by charges for community wide services. Calls attention to absence of surplus earnings protection in municipals, as well as limitations on municipal taxing powers, but maintains an unlimited tax general obligation municipal bond has essentially more earnings protection than most corporate bonds.

In all fields of investment (excepting Federal issues), studies leading toward the development of knowledge and opinions regarding the relative and intrinsic quality or security of particular bonds are concerned with three main areas of inquiry: capitalization, earnings protection, and management.

Tests of the conservatism of capitalization vary among the different fields of investment. Among industrial bonds, you will look for a low ratio of debt to fixed assets, for your security may rest upon your right to foreclose upon those assets. With public utilities, the debt ratio itself is not particularly meaningful; that which is important is the value of the plant account itself. Why? Because under commission rate regulation, the investment in physical plant determines the rate base and, hence, earnings power.

Turning to municipals, in the case of utility revenue bonds the ratio of debt to fixed assets is of little practical importance. Rate regulation is rare; customarily, the municipality is required to bill and collect rates for utility services sufficient to provide for operating and maintenance expenses, bond interest and principal.

With general obligation bonds, no useful purpose would be served by comparing debt to the value of a city's streets, public buildings, and so on. Rather, we test capitalization by the familiar devices of per capita debt and the ratio of debt to the tax base.

Mortgage ratios and debt ratios are useful tools for the investor and bond analyst. But we are short-sighted if we stop there; we must take into account possible future changes in asset protection. Properly conceived indentures securing corporate bonds and municipal revenue bonds, alike, contain definite restrictions upon future increases in debt.

In the case of general obligation municipals, the bond contract rarely makes any representations at all with respect to future borrowings. The investor is given no assurance that later loans contracted by the municipality will not impair the quality of his investment. In this connection, the investor places his reliance on the practicalities of the particular situation, and on the laws of the state governing municipal debt.

It may be presumed that a given city already has all needed improvements and so is not likely to borrow very much; that is not a safe reliance in these times of expanding activities of government. Definitely, it is not a safe reliance in those sections of the country where governmental facilities have grown old, or in those sections where facilities do not measure up to present day accepted standards. Also, this is not a safe concept to apply to communities which are growing rapidly; experience shows that debts incurred for new schools, new streets, expanded water and sewer systems, and so on, during a period of rapid growth, may expand at a rate exceeding the growth of wealth.

Effect of Legal Limits on Debt

Until roughly 1930, investors were able to place considerable confidence in the legal debt limits found in most of the states. (In some states, notably Texas and Florida, there never have been any debt limits and accordingly one has always been forced to look to the practicalities.) Until a few years ago, the debt limits in most of the states were modest; it was not likely that legal debts would reach a dangerously high level. But in recent years, one state after another has tinkered with its laws in one way or another so as to permit higher debts.

Impartial students of municipal government differ in their opinions regarding debt limits. Some authorities go so far as to argue that there should be no limits at all. But whether limits are right or wrong, we may observe that investors have tended to place some credence upon them. Their importance has varied from state to state, but in general it may be said that the broad pattern of municipal credit varies inversely with debt limits. Where the limit is

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*A lecture given on Aug. 2, the 11th in a series of 17 on Securities Analysis, sponsored jointly by the New York Securities Industry and the University of Vermont's Department of Commerce & Economics.

The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

A slight increase in industrial production for the nation at large occurred the past week, bringing total output to a new postwar high. It was noted that nearly all segments of industry showed noticeable improvement above the production levels of a year ago. Government orders for defense material became increasingly numerous during the week and in the field of employment it was further noted that total claims for unemployment insurance continued to be substantially under the level of the previous year.

Steel ingot production pushed to a new all-time high last week, output being estimated at 1,978,900 net tons. The national ingot rate advanced ½-point to 102.6% of capacity. The point, according to "Steel" magazine, national metalworking weekly, is rapidly nearing where wear and tear on furnaces and equipment is thought bound to force some curtailment from the present unprecedented production pace. Meanwhile, furnace operators are doing everything possible to get as much production as they can as long as they can. This week steel ingot production is scheduled to drop 0.2% of capacity from the previous week.

Currently, the bulk of shipments from the mills continues to move to civilian goods manufacturers. However, DO rated tonnage is rising and this, along with tonnage under voluntary allocation, will begin to cut severely into civilian supplies in first quarter of next year.

Revisions in finished steel prices, states this trade paper, are getting commonplace, even the larger interests are now effecting some upward adjustments. Current changes largely are confined to zinc-coated products and alloys.

In the automotive industry last week an easier trend obtained with passenger car production off about 1,500 units, due to Ford's return to a five-day week at its assembly plants following the institution of six-day output a week earlier. Gains by some producers had the net effect of almost offsetting losses by others.

Loadings of revenue freight by the rail carriers in the week ended Oct. 21, reached the highest point for any week since October, 1948, and represented an increase of 301,902 cars or 51.2% above the corresponding period in 1949.

For the month of September business failures declined by 18% to 648, or the lowest level since January, 1949, Dun's Failure Index reveals.

Liabilities as well as the number of failures fell off in that month. Total current liabilities of $15,254,000 were involved, being the smallest volume in some two years, although heavier than in the similar month of any war or prewar year since 1935.

All industry and trade groups had a smaller number of casualties in September than in August. Manufacturing failures were concentrated in textiles and apparel, lumber and lumber products, food and machinery. A general decline prevailed in retail trade.

Steel Output Scheduled to Decline 0.2% of Capacity In Current Week

Government orders providing steel for essential civilian use are now beginning to hit hard at other steel users, "The Iron Age," national metalworking weekly, reports in its current summary of the steel trade. Information now available shows that defense steel plus that earmarked for essential civilian production will total between 20% and 25% of total steel output when all programs are in full swing—probably by next June. By that time these programs will probably take between 40% and 45% of all flat-rolled steel production—sheets, plate, etc.

They are here now or coming fast while defense orders are gathering steam slowly. Two civilian allocations alone will take about 12% of next year's steel output, according to current plans. Freight car building and repair will take over 5,000,000 ingot tons and the oil and gas industry is down for about 10,000,000 ingot tons. Figures for other requirements are not yet in. The above affords sufficient reason why controls over steel distribution must inevitably move in the direction of a controlled materials plan, states this trade authority.

While most attention is being focused on steel distribution, the men who make steel have been pouring a few records of their own. After setting five consecutive new all-time records for steel melted in a single week, they planned this week to hold their operations at 102.4% of rated capacity. The records for sustained production are too numerous to mention, but they add up to a record year of steel output.

Barring unforeseen trouble, the steel industry is well on its way to producing more than 96,000,000 ingot tons of steel this year, "The Iron Age" points out. Highest previous production was 89.6 million tons during the wartime year of 1944. Previous peacetime high was 88.6 million tons in 1948. Last year's output totaled 77.8 million tons.

It won't be long until steelworkers get their 17½ to 18c an hour raise which will include 12½ to 13c base pay increase and about 5c an hour for fringe extras covering holidays, vacations, inequitable wage rates and increased pension payments. White collar workers will get a corresponding increase.

Current negotiations have covered the broad problems and have narrowed down to details, precise language, extension of present contracts and discussion of the definite limits to fringe concessions.

Steel prices will go up promptly after the wage concessions are granted. They will go up, as predicted last week by "The Iron Age" by $6 to $10 a ton with the majority of the increases being closer to the high figure. The average increase for all steel prices

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"Where Do I Go To Invest My Dollars?"

By A. WILFRED MAY*

Mr. May details the various facilities available to the expert and amateur investor, citing their respective advantages and disadvantages. Declaring "a big trouble with Wall Street is the customer," he urges the individual to forego speculative foibles and generally illogical behavior, and instead permit his advisers to follow sound investment principles. Says "it is as important for the customer to behave himself as for his stocks to behave themselves."

While it would be an exaggeration to say that "*the* trouble with Wall Street is the Investor," it is nevertheless true as well as important that psychological foibles and generally illogical behavior of the customer constitute one of the main hindrances to sound investment practice throughout the investment community.

A. Wilfred May

And that truth must be the basic prerequisite of any advice given to you as to where to go and whom to use, in the management of your capital.

For, tempting and soothing though the "escapist" thought may be, that it is possible to avoid all the problems and forbidding complexities, by "letting some George do it" for you, nevertheless you must face the inescapable truth that there must always remain certain basic responsibilities that you must assume—be you rank amateur or trained expert.

So in addition to spelling out for you the facilities and functions of the several agencies available for the employment of your dollars, I will speak of some of the rules of conduct you must preserve—to help your own interests as well as them.

That Department Store of Money

The first savings location to cite is the savings bank—a sort of money-department-store.

Their former women's departments, a promotion vehicle pandering to the fair sex business, has now been abandoned by practically all New York institutions. This seems completely logical, there being no genuine differentiation between the sexes who own capital.

The interest rate paid to you on your savings bank deposit now averages 2% in New York City. There are variations in the rate, in the method of compounding interest to your credit, and as to the date when interest starts to be credited. Hence some shopping-around among banks is advisable.

There is no doubt whatever about the safety of your deposit (irrespective of the bank's own assets), since the Federal Deposit Insurance Corporation insures all deposits up to $10,000. The size of individual deposits is in N. Y. State restricted to $7,500, but dependents can be added up to the same amount in one pass-book for convenience.

Along with money put into U. S. Savings Bonds cash may be kept in the savings bank for emergencies, as unemployment and illness. The interest earned in the bank is more than that on Savings Bonds over short periods, and less if held from 7 to 10 years. For working people, a reasonable rule would be to keep six-months salary in the savings bank—with the balance of their surplus cash savings in the government's Series E Bonds.

Other functions performed by this savings-department-store are: the sale of life insurance at reduced cost because of no salesmen's commission, and with the bank automatically taking care of the premiums; safe deposit vaults; sale of U. S. postal money orders; the extension of mortgages to depositors on proper security; notary service; and banking by mail.

The savings bank, in contrast to its former tradition as poor man's institution, is now distinctly the *middle* man's — or the middle woman's—bank.

The Commercial Bank

Commercial banks, of course, offer entirely different services. Checking accounts represent a service, on which no interest is paid—in fact on many checking accounts service fees are charged, prompted by the continued rises in the bank's own expenses. Their time savings accounts pay 1% or less in interest. On Christmas Club accounts no interest is paid—they being merely a savings device.

For the depositor who is a securities investor the commercial bank offers a number of services: in completing transactions for him it delivers the securities to the broker after they have been sold, and receives the certificates and pays for them from his deposit account when they are bought—all for specific transaction fees.

Safe deposit boxes are available at from $5-$6 per year up.

The custody account is another service vitally interesting to investors. Here the bank holds the customer's securities for her, advising promptly of the corporate actions relevant to her individual holdings; on bonds, advising of redemption calls, maturities, collecting coupons; and on stocks, advising of subscription rights, etc. Custody service includes no advice on portfolio management.

There are, however, advisory services offered by the commercial banks, which do include investment counselling as well as custody service. These are known under various names. Usually, following its preference for obvious reasons, the bank requires the customer's approval for security transactions; but sometimes discretionary power is given the bank.

The fee for this service usually ranges between ⅜ and ½ of 1% of the principal, with a minimum of $450 to $500; so the lowest amount worthwhile to use that way is about $100,000.

For a person with less than $100,000—she can get advice from officers of the trust department, but such advice will be spasmodic, not applied to an over-all continuing investing program, and limited to advice on bonds, not stocks. Usually there is no charge for such advice, if it is not too frequent.

Also for the investor, there are the trust departments of both the commercial banks and the trust companies.

For investment management,

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*A talk by Mr. May in the series "You and Your Dollars" jointly presented by Town Hall, Inc., and Federation of Women Shareholders in American Business, Inc., at Town Hall, New York City, Oct. 31, 1950.

Hubert R. O'Neil Jr. With Merrill Lynch Co.

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, Cal.—Hubert R. O'Neil, Jr., has become associated with Merrill Lynch, Pierce, Fenner & Beane, 454 North Camden Drive. Mr. O'Neil was formerly with Dempsey - Tegeler & Co., Morgan & Co. and Bourbeau & Douglass. Prior thereto he was manager of the trading department of the Los Angeles office of Buckley Brothers.

Hubert R. O'Neil, Jr.

H. H. Wildeman With Paul H. Davis & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Harry H. Wildeman has become associated with Paul H. Davis & Co., 10 South La Salle Street, members of the New York and Midwest Stock Exchanges. Mr. Wildeman was formerly manager of the research department of Ames, Emerich & Co., Inc.

With Daniel Reeves & Co.

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, Cal.—Malcolm Resnick has become affiliated with Daniel Reeves & Co., 398 South Beverly Drive, members of the New York and Los Angeles Stock Exchanges. He was formely with Walston, Hoffman & Goodwin and Edgerton, Wykoff & Co.

What About Aircraft Manufacturing Stocks!

By LOUIS STONE

Market Analyst, Hornblower & Weeks

Members of the New York Stock Exchange

Mr. Stone furnishes statistical data regarding earnings, dividends, and market prices of shares of leading aircraft manufacturing companies. Concludes, despite relative high prices of their shares, this group has investment and speculative advantages. Says aircraft companies today are as strong or stronger financially than any other industrial group.

Any evaluation of the aircraft manufacturing stocks in the current market runs into the impossibility of accurately forecasting (1) renegotiation policies, and (2) excess profits taxes. But it may be helpful to review the position of the industry and point out the striking reversal which has taken place since 1947, at which time the feeling was widespread that the industry as a whole would be unable to adjust itself satisfactorily to a peace-time level of production. Table I below shows market record of the leading stocks since 1945.

Louis Stone

The 1950 recovery, to a level about 70% above the 1949 lows, had already been accomplished well before the Korean outbreak; a further substantial advance developed in July on the Korean news; and then some decline materialized on the realization that war profits would mean war taxes, probably excess profits taxes. Although no clear indication is yet available as to what form an excess profits tax will take, it does seem fairly certain at the present writing that political considerations will force some kind of excess profits tax when Congress reconvenes in November. It is probable that the final form of the tax bill will be considerably less severe than the World War II measures, but the forthcoming election results may have considerable influence on the eventual determination of rates. Current thinking indicates a 75% tax on earnings in excess of 100% of the best three year average in the 1946-49 period, excluding deficit years; any such rates, although considerably below the World War II level, would have a very adverse effect on the aircraft industry's potential large earnings. It is of interest to point out that the Treasury Department and the Internal Revenue Bureau are believed to prefer a higher overall corporate tax to a straight excess profits tax, partly for administrative reasons. The Internal Revenue Bureau was still working on its World War I excess profits tax cases as late as 1940, and the World War II cases are still reported to number more than 55,000 with at least half of the cases ruled on by the Bureau requiring further litigation in the Tax Court. Despite all the evidence and the long history of basic inequitability inherent in any excess profits tax, it seems wise to assume that some form of burdensome measure will be forced through Congress.

Earnings of Leading Companies

Table II below shows the 1949 and interim 1950 results of 11 leading companies:

The record indicates (1) a substantial increase in sales and profits above the 1949 rate even prior to Korea, and (2) a significant increase in profit margins for most of the leading companies—the 4.2% overall margin is not representative of the average of better than 5% for the companies other than Consolidated Vultee. On the increased volume which is now developing, there will be a normal tendency for profit margins to rise very appreciably, and some effective implementation of the Renegotiation Act of 1948 will be required. The limitations imposed by the Renegotiation Statute do not provide any set formula for defining excessive profits, and the margin to be allowed on sales is unpredictable at the present time. Realization of anything like a 4% net on the presently indicated volume of business over the next several years will mean very large per share earnings for most of the companies.

Prior to the Korean outbreak, the military budget had called for a total 1950-51 fiscal year outlay of about $2.3 billion. Supplementary appropriations forced by the Korean war have raised this total to about $6.5 billion, and procurement will have to continue at at least this rate or better to provide the 100-group Air Force plus a greatly expanded Naval Air Arm which is reported to be the Joint Chiefs of Staff goal for 1954. The Korean experience, aside from assuring a major large scale rearmament program with Congressional and public approval, has had considerable significance for the aircraft industry—emphasis has tended to shift from strategic bombing requirements to the fighter and transport field, and further impetus has been given to the development of improved jet planes and jet engines. According to news reports the Korean war has emphasized the value of the following plane types:

FIGHTERS

Republic's	F-84
North American's	F-86
Lockheed's	F-94
Lockheed's	F-80
Lockheed's	F-90
*Northrop's	F-89
*McDonnell's	XF-88

LIGHT BOMBERS

Douglas	B-26
North American's	B-45
*Martin's	XB-51

TRANSPORTS

Fairchild's	"Packet"
Boeing's	C97
Douglas	C124
Northrop's	C125

HEAVY BOMBERS

Con. Vultee's	B36
Boeing's	B47
Boeing's	B50

*Still experimental.

It is difficult, however, to take published news reports as any reliable indication of the long-range procurement plans of the military services. For one thing, military plans are necessarily secret, and for another, a detailed knowledge of each company's production set-up would be required to translate publicly announced orders into intelligent estimates of potential profits. Backlog figures, shown below as last officially reported, are of some value when considered in relation to sales volume, but because all military orders are subject to cancellation, the figures cannot be taken as an accurate indication of future business; in any case, the figures in Table III below are all prior to Korea except in the case of Douglas and Lockheed.

Since June 30, all of the companies listed in Table III have reported the receipt of substantial military orders, but in most cases detailed figures are no longer published, for military security reasons. In the case of Douglas, the Sept. 30 figure of $625,498,840 compares with $270,546,000 as of June 30, and the Lockheed Oct. 30 figure of $431,000,000 compares with $223,568,000 as of June 30. In the absence of post-Korea figures for the other companies, it is fair to assume that their present backlogs average at least twice their 1949 sales volume and, in most cases, considerably more; it is also fair to assume that military requirements are sufficiently urgent to force an efficient use of the productive facilities of all the larger companies, regardless of the particular company's postwar record—above average as in the case of Grumman, or below average as in the case of Martin.

Table IV below presents pertinent per share figures.

The indicated increase in 1950 net over the 1949 rate will no doubt accelerate as the companies adjust their operation to the flood of new business which has developed since Korea, but tooling-up expenses required for the new high level of production may defer the full benefits until 1951 and subsequent years. From 1951 on until at least 1954, much higher operating profits seem assured, with final net almost completely dependent on renegotiation policies and excess profits taxes.

The tabulation below of prices, earnings, and dividends does not indicate any great degree of relative cheapness in today's market of generally high yields and low earnings ratios—the appeal of the aircraft group to the average investor lies in the practically guaranteed high level of production for a considerable period ahead, with a probable attendant increase in earnings and dividends, but limited by factors still unknown. From a defensive point of view, the group has certain almost unique advantages — aside from the assured growth in volume, the aircraft companies today are as strong or stronger financially than any other industry group; they have practically no debt, most of them have no preferred stock, they have substantial book values, and they have high net working capital per share. Whatever marginal qualities may once have been attributed to the industry are no longer present, at least for the larger companies. United Aircraft, Curtiss-Wright, Boeing, Douglas, Lockheed, and North American are solidly entrenched in an industry which is and will remain basic to the world's economy, regardless of cyclical fluctuations in the international political temperature. All of these companies have proven their ability to make profits and pay dividends in war, in peace, and "in-between"; to the puzzled investor who is fearful of further monetary inflation and at the same time worried about deflation of an already swollen economy, the group as a whole offers an attractive compromise.

TABLE I

	1946 High	1947 Low	1948 High	1949 Low	Oct. 23 1950
Douglas	108⅞	45¼	67⅞	48⅝	79½
Boeing	35	14⅛	29½	17⅝	36
Grumman	26¼	8½	25¾	15⅛	31¾
Lockheed	45¼	10⅝	24⅝	16⅛	30⅜
United Aircraft	37⅜	16⅞	30⅝	20⅛	30¼
Con. Vultee	33⅝	10½	16⅜	8	16⅛
Martin	45½	14	22⅜	7⅛	14½
No. American	16¾	6⅝	13⅜	8⅛	14⅛
Republic	24⅞	4⅜	13⅜	4¾	11⅝
Curtiss-Wright	12⅛	4⅛	12½	7	9⅝
Fairchild	8⅜	2	5⅞	3¾	6¾
	394	137	262¼	154⅜	280⅝

TABLE III

	Date	Backlog
Douglas	9-30-50	$625,498,840
Lockheed	8-30-50	431,000,000
Boeing	6-30-50	391,515,165
United Aircraft	6-30,50	310,000,000
North American	6-30-50	264,359,568
Grumman	3-31-50	208,000,000
Con. Vultee	11-30-49	207,000,000
Curtiss Wright	3-31-50	132,100,000
Martin	6-30-50	94,422,000
Fairchild	3-31-50	76,000,000
Republic	6-30-50	43,500,000

TABLE II

	1949 Sales (000)	1949 Net (000)	Profit Margin	1950 Sales (000)	1950 Net (000)	Profit Margin	Period
Boeing	$286,752	$4,411	1.5%	$207,607	$8,210	3.9%	9 mos. thru Sept.
United Aircraft	227,083	10.093	4.4	132,710	6,432	4.8	6 " " June
Consolidated Vultee	*196,561	3,713	1.9	191,000	2,325	1.2	9 " " Aug.
Curtiss Wright	128,578	2,750	2.2	63,487	3,385	5.3	6 " " June
North American	†124,180	7,306	5.9	93,254	5,157	5.5	9 " " June
Lockheed	117,667	5,491	4.6	84,479	4,691	5.5	6 " " June
Douglas	*117,422	5,517	4.7	95,276	4,748	5.0	9 " " Aug.
Grumman	59,965	3,192	5.3	49,300	3,922	7.9	6 " " June
Martin	52,054	5,131	9.9	16,583	873	5.3	6 " " June
Fairchild	48,101	1,575	3.4	28,459	N.A.		6 " " June
Republic	47,722	877	1.8	29,566	699	2.3	6 " " June
	$1,406,087	$50,056	‡3.6%	$963,262	$40,442	4.2%	

*Year ended Nov. 30, 1949. †Year ended Sept. 30, 1949. ‡Excluding Fairchild.

TABLE IV

	1946-49 Av. Net	1949 Net	1950 Interim	Period	12 Mos. Diviednd	Net Worth	Net Wkg. Capital
Douglas	$4.76	*$9.19	$7.91	9 mos. thru Aug.	$7.75	$124.96	$93.15
Boeing	1.48	4.07	7.58	9 " " Sept.	3.00	42.79	36.81
Grumman	2.05	3.19	3.92	6 " " June	3.00	27.06	21.06
Lockheed	2.86	5.10	4.29	6 " " June	2.00	45.89	29.12
United Aircraft	2.85	3.31	2.17	6 " " June	2.00	36.40	19.53
Consolidated Vultee	§	*1.60	1.87	6 " " June	1.00	13.89	6.04
Martin	§	2.50	.77	6 " " June	---	18.08	8.46
North American	1.49	†2.13	1.50	9 " " June	1.25	13.97	12.48
Republic	§	.87	.69	6 " " June	.25	8.38	7.37
Curtiss Wright	.04	.12	.34	6 " " June	1.00	‡13.32	9.76
Fairchild	.22	.68	N.A.		.55	7.04	5.55

*Year ended Nov. 30, 1949. †Year ended Sept. 30, 1949. ‡On combined A and common shares. §Deficit.

How High Taxes Can Raise Prices

By A. M. SAKOLSKI

Dr. Sakolski points out substantial increase in taxes may under present conditions have an inflationary effect, since taxes, along with increased money supply and bank deposits, tend to raise prices. Cites other and more effective inflation remedies.

There is almost universal agreement that, in the present rearmament crisis, taxes should be increased in order to curb inflation. But the full implication of higher taxes on the national economy and on business profits, prices, and individual incomes has not been fully scrutinized, and there seems to be a general apathy among statesmen, economists, and others regarding a searching analysis of the complex effects of high taxes, not only on individual incentives and public morale, but also on the price mechanism. It seems to be widely forgotten that taxes, like wages, are in most instances a production cost, even when levied on rentals and income, and therefore may be shifted to consumers. If such shifting takes place, it will eventually affect prices upward and this has an effect similar to monetary inflation.

A. M. Sakolski

Various Types of Inflation

Inflation, as an economic phenomenon, is generally defined as "too much money," i.e. an excess of or substantial increase in disposable income over and above available goods, materials, and services. This, however, is only one type of inflation, if by inflation we also mean a trend toward higher prices. But the general concept of inflation is not so simple. Inflation, like the common term "disease," has a variety of aspects and causes, and these aspects and causes are not necessarily connected or related to one another. Each arises in a different way and to each a different remedy should be applied, and (as in the case of "disease,") applying a remedy for one type may merely produce another and even worse type.

It was only a few years ago that the late Dr. Charles Hardy, who, when Vice-President of the Federal Reserve Bank of Kansas City, called attention to the broad application of the terms "inflation" and pleaded for a limitation of its use to a redundant money supply or excessive issues of paper money. In an article printed in "The Chronicle," July 11, 1946, he stated:

"The writer would prefer to define 'inflation' as meaning a rise in prices which is apparently due to an increase in the supply of money. This differentiates inflation from 'rising prices' by both excluding what is called sporadic inflation and the increases which are associated with recovery from depression. But the term 'inflation' is used so loosely that any attempt to limit ourselves to a narrow definition would lead to misunderstanding of this meaning, regardless of an author's explicit statement that he uses it to mean not quite the same."

Thus, it is evident that though

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Arms and Dollars

By PAUL EINZIG

In commenting on decision of U. S. to withhold from European nations "free" dollars to finance rearmament imports from countries other than United States, Dr. Einzig points out this policy may lead to loss of foreign gold reserves. Says under such conditions nations would have to decide whether to sacrifice military security to economic welfare.

LONDON, Eng.—The decision of the United States Government to decline the request of the British and French governments for "free" dollars to finance rearmament imports from countries other than the United States has caused disappointment in official circles in Western Europe. It is admitted, however, that perhaps they had attached exaggerated hopes to the interpretation of the American promise of assistance for rearmament purposes. The view was taken in July in London and other Western European capitals that American assistance would provide an opportunity for replenishing European dollar reserves in order to be able to stand the subsequent strain on the economies of European countries when rearmament has got into its stride. It was hoped that, since Marshall Aid will peter out during the next two years it would be replaced by "free" dollars derived from American assistance for rearmament.

Dr. Paul Einzig

There can be no doubt that, in spite of the progress towards reconstruction, Europe in general and Britain in particular, is still in need of American assistance, over and above the delivery of American arms and materials needed for rearmament. It is true, the gold reserves of Britain and other countries have increased. Even so they are far from sufficient in prevailing circumstances. Not only would it be too risky for Britain, France and most other Western European countries to restore convertibility and free dealings in exchanges, but even under the existing system of controls these countries are exposed to a sudden depletion of their gold reserves. Apart from the possibility of an adverse change in world economic trends, they are liable to lose gold heavily through embarking on rearmament on a really impressive scale. So far there are no indications of any intention to do so. Even though these countries have embarked upon rearmament, the scale of their effort remains relatively moderate. The pace of acceleration depends partly on the realization of the threat to their security and partly on the extent to which rearmament could be increased without having to sacrifice the standard of living and to jeopardize economic recovery.

So long as the gold reserves continue to increase, or at any rate they do not show a decline of substantial dimensions, rearmament will continue on an increasing scale. Any sharp decline in the gold reserves would be regarded, however, a danger signal, and official opinion, political opinion, in the countries concerned is likely to react in a sense unfavorable to the rearmament effort. To protect their economies it would be necessary to cut their imports and increase their exports, and to that end the governments concerned are likely to decide to cut their rearmament programs.

It is of course possible that, once that stage is reached, the United States would be prepared to grant assistance in a form and on a scale that is liable to stop the gold drain. The European governments are not very keen, however, on depending on such an eleventh-hour increase of the American support. It is feared that internal political considerations might easily delay additional aid for six months or more. And six months of gold drain might easily deplete the gold reserves below danger points. The governments concerned will take much care, therefore, to strike a balance between the conflicting claims of rearmament and of economic recovery. Having to keep a watchful eye on the latter, they are not likely to throw their energies and resources wholeheartedly into the measures needed for the sake of national security.

Of course the reluctance of the United States to part with "free" dollars in existing circumstances is well understood over here. The formidable size of the American rearmament effort makes it admittedly more difficult for the United States to finance also the rearmament efforts of other nations on a very extensive scale. On the other hand, it is argued that, by assisting in the rearmament of Eurpean countries, the United States will have the benefit of an increase of military strength of their allies at a comparatively low cost. For, after all, the European countries contribute the bulk of their own rearmament expenses and only expect the United States to supply a relatively small proportion. Moreover, since the standard of living is lower in European countries, the same number of divisions cost less than in the United States.

There is a widespread feeling in Europe that rearmament should provide an opportunity for a long-overdue redistribution of the gold that has accumulated in the United States since 1914. To some degree such a result would be produced even in the absence of American military aid on a large scale, if American rearmament exceeded considerably European rearmament. It is assumed that this would tie down American industries to such extent that European countries would be able to increase their exports both to the United States and to other hard-currency countries at present supplied by the United States. At the same time European imports of American manufactures would decline.

The question is whether the European governments attach more importance to economic welfare than to military security. So long as disturbances are confined mainly to the Far East, it would be difficult to persuade European Parliaments that rearmament must proceed at full speed even at the risk of heavy losses of gold. The moment trouble begins nearer home such difficulties would subside. At present there is still a widespread conception that Europe is rearming primarily to help the United States. Possibly one of the reasons why Russia remains relatively inactive in Europe is to keep this conception alive.

Inflation Should Be Stopped

By PAUL H. NYSTROM*
Professor of Marketing, Columbia University

Prof. Nystrom, asserting country is running high fever of inflation, reviews its history, causes and characteristics. Reveals wide disparity between recent wage increases and man-hour output, and holds this is main threat to value of dollar. Cites 40-hour work week and minimum pay rise, along with overtime pay as inflationary, and lists course of action by retailers to stop inflation. Urges all groups join in inflation fight.

Every one knows that this country is running a high fever of inflation. There are differences of opinion as to its causes, what its future course may be and what can be done about it. The purpose here will be to consider trends in wage rates and in man-hour productivity for clues that these factors may offer to an understanding of the present inflation.

Paul H. Nystrom

What Is Inflation?

Let us begin with a definition. The economy of the country may be said to be inflated when its money is swelled up, puffed up, or blown up abnormally. Our dollars have swelled out in quantity but their solid values have gone down. The number of dollars offered for goods and services have increased a lot more rapidly than the production of such goods. Too many dollars are chasing too few goods. As a consequence, prices have risen. The value of the dollar has gone down.

How Much Inflation Is There?

To answer this question we must compare with some previous time. Prices offer a measure of inflation. It is, of course, possible to compare present prices with those of any past date. The comparisons made with previous dates will naturally differ considerably according to the date chosen as the base. It is one of the common tricks of certain economists and statisticians, who want to prove something, to select the base date that will best show the trends desired.

In this presentation it might be possible to select June 25, 1950 as a basis for comparison. Since that date, there have been sharp price increases, ranging from 25% to 300%, in a number of raw materials, particularly in materials needed for defense production. It might be possible to select the end of World War II in 1945 as a base and show the sharp increases in prices that have occurred since then.

In this case, let us begin with the year 1939. In that year the United States was still at peace with the world. By 1939 the New Deal Administration had been hard at work for six years to raise employment and production. 1939 marked the first full year under the Federal Wage and Hour Act. There were still nearly 10,000,000 people unemployed. However, it was in that year that the present inflationary wave began. It was in its beginnings a planned inflation. It developed slowly at first. World War II gave it a sharp boost. In the five years since the war, as we shall see it has gained enormously.

What Has Happened to Prices Since 1939?

We might also ask the question —what has happened to the value of the dollar? We shall find that there have been some startling changes. The facts to be presented are from the statistics provided by the Bureau of Labor Statistics of the U. S. Department of Labor. First, let us consider the changes that have occurred as shown in the Consumers' Price Index. This index covers the goods and services bought by moderate income families. According to this index the dollar of 1939 had, by Aug. 15, 1950, the last date for which the index is available, become worth but 57¢.

At this point it is pertinent to observe that the Consumer's Price Index is an average that includes rent, gas, electricity and transportation, the prices of which have been and still are restricted and controlled. If one leaves out these controlled items, the purchasing power of the dollar is considerably less than 57c. For example, in comparison with 1939, the clothing dollar today is worth only 54c. The home furnishings dollar is worth only about 54c.

The food dollar of today is worth less than half what it was worth in 1939. As of the present date it buys only 47c worth. In the purchase of housing construction, the present-day dollar is worth only 46c. In the hiring of labor it is worth 43c. In the purchase of raw materials it is worth 42c.

Practically everything that consumers buy costs double or more than it did ten years ago. Except in the controlled items, the dollar is worth only half or less of what it was worth in 1939.

The trend in the value of the dollar is still downward. I am attempting to make no forecast. This is simply a statement of fact. Certainly if the trend is not changed, and soon, this country is headed for economic disaster.

There Is Nothing New About Inflation

You can read about inflations in every book on economic history. There have been hundreds of them. Most of them ended in national disasters. Usually, the inflations ended in collapse, not only of the existing monetary system but also of the government under which they occurred. Several inflations of recent times have ended in calamity.

You all know of the break-down of the First Republic of France

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*An address by Dr. Nystrom before the Boston Conference on Distribution, Boston, Mass., Oct. 16, 1950.

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Check List of Tax Savings Available to Investors in 1950—Brochure discussing opportunities to save on estate and income taxes under the new tax law—The Keystone Company of Boston, 50 Congress Street, Boston 9, Mass.

Common Stocks for Investment—Tabulation of stocks in various industries—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Equity Fluctuations—Discussion—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y.

Natural Gas Industry—Study—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Over-the-Counter Index—Booklet showing an up-to-date comparison between the thirty listed industrial stocks used in the Dow-Jones Averages and the thirty-five over-the-counter industrial stocks used in the National Quotation Bureau Averages, both as to yield and market performance over an eleven-year period—**National Quotation Bureau, Inc., 46 Front Street, New York 4, N. Y.**

Real Estate Bond Prices—Memorandum—Amott, Baker & Co., Incorporated, 150 Broadway, New York 7, N. Y.

Tax Exempt Bonds as Investments in the Present Inflation—Reprints of an address by Phillips Barbour—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

* * *

Amerex Holding Corp.—Memorandum — New York Hanseatic Corp., 120 Broadway, New York 5, N. Y.

Also available is a memorandum on **American Express Co.**

American-Marietta Company—Brief data—Wm. J. Mericka & Co., Inc., Union Commerce Building, Cleveland 14, Ohio.

Ascot Metals Corp., Ltd.—Bulletin for brokers, bankers and investment counsel—Rittenhouse & Co., 226 Bay Street, Toronto 1, Ont., Canada.

Christiana Securities Company—New bulletin—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Columbian Carbon Company—Analysis—DeHaven & Townsend, Crouter & Bodine, 1500 Chestnut Street, Philadelphia 2, Pa.

Food Machinery and Chemical Corporation—Analytical brochure—Kidder, Peabody & Co., 17 Wall Street, New York 5, N. Y.

Also available is a bulletin on **Electric Bond and Share.**

Gisholt Machine Co.—Analysis—H. M. Byllesby & Co., Inc., Stock Exchange Building, Philadelphia 2, Pa.

Kaiser Aluminum & Chemical Corp.—Memorandum — Rauscher, Pierce & Co., Mercantile Bank Building, Dallas 1, Texas.

Also available is a brief memorandum on **Spencer Chemical Co.**

Lincoln National Life Insurance Company—Analysis—First Boston Corporation, 100 Broadway, New York 5, N. Y.

Maryland Drydock—Circular—J. F. Reilly & Co., Inc., 61 Broadway, New York 6, N.Y.

Also available is a circular on **Spencer Chemical.**

Mathieson Hydrocarbon Chemical Corp.—Memorandum—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y.

Monopower Corp. — Memorandum—Edgerton, Wykoff & Co., 618 South Spring Street, Los Angeles 14, Calif.

Placer Development, Limited—Analysis — John R. Lewis, Inc., 1006 Second Avenue, Seattle 4, Wash.

Riverside Cement Company—Card memorandum — Lerner & Co., 10 Post Office Square, Boston 9, Mass.

Shawmut Association — Special report—Eisele & King, Libaire, Stout & Co., 50 Broadway, New York 4, N. Y.

Shepard Niles Crane & Hoist Corp.—Analysis—J. Roy Prosser & Co., 11 Broadway, New York 4, N. Y.

United Gas Corp. — Bulletin — Colonial Associates Inc., 49 Federal Street, Boston 10, Mass.

U. S. Thermo Control—Analysis — Raymond & Co., 148 State Street, Boston 9, Mass.

Also available is an analysis of **Simplex Paper.**

COMING EVENTS

In Investment Field

Nov. 3-4, 1950 (Miami, Fla.)

Florida Security Dealers Association Annual Meeting at the MacFadden-Deauville Hotel.

Nov. 9, 1950 (Boston, Mass.)

Boston Investment Club Dinner Meeting at the Boston Yacht Club.

Nov. 15-16, 1950 (N. Y. City)

Association of Stock Exchange Firms' annual meeting of Board of Governors at the Waldorf-Astoria.

Nov. 26-Dec. 1, 1950 (Hollywood, Fla.)

Investment Bankers Association Annual Convention at the Hollywood Beach Hotel.

Dec. 8, 1950 (New York City)

New York Security Dealers Association Silver Anniversary Dinner at the Waldorf-Astoria Hotel (Starlight Roof).

Dec. 21, 1950 (St. Louis, Mo.)

Mississippi Valley Group of IBA Christmas Party at the Park Plaza Hotel.

June 11-14, 1951 (Jasper Park Lodge, Alberta, Canada)

Investment Dealers Association of Canada Annual Convention.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

LINCOLN, Neb.—Raymond S. Johnson, Gladys Heckman and Merel C. Hays have become affiliated with Waddell & Reed, Inc., Barkley Building.

Sidney Ross Co.

Sidney S. Ross is engaging in a securities business from offices at 3070 Hull Avenue, New York City, under the firm name of Sidney S. Ross & Co.

With King Merritt & Co.

OKLAHOMA CITY, Okla. — Harry J. Schafer, Jr., has become associated with King Merritt & Co., Inc., of New York City.

Excess Profits Tax Is Against Public Interest

By HARLEY L. LUTZ
Professor Emeritus of Public Finance, Princeton University

Dr. Lutz, contending excess profits tax is against public interest because it is economically unsound, administratively unworkable, and contributes to inflation, recommends instead a Corporation Defense tax, which would be in addition to regular corporation income tax and levied as a percentage of the corporation income tax. To effect a clear distinction between income taxes and the Corporation Defense tax, and to avoid a too heavy burden on small business, he advocates changing normal tax rate in new revenue act from 25% to 18%, and leaving surtax rate of 20%.

The Emotional Aspects

The clamor for an excess profits tax has developed since the outbreak of the war in Korea. There has been a certain amount of insistence upon such a tax, even in peacetime. But the general view has been that there is no justification for taxing so-called excess profits during peace. Now, however, in a situation which was certainly far short of full-scale war, the pressure developed so rapidly and so strongly that Congressional leaders were able to keep such a tax out of the 1950 Revenue Act only by including in that act instructions that the tax-writing committees should proceed to draft and report an excess profits tax bill.

Dr. Harley L. Lutz

While there appears to be a fairly general public demand for an excess profits tax, the source and inspiration of this demand are special pressure groups. The general public is not sufficiently informed regarding the particular problems and difficulties involved in this tax to grasp its full implications, and the basis of its respose is obviously emotional rather than a thoughtful consideration of facts. The time has come to emphasize the facts and to state some of the arguments against excess profits taxation. Such is the purpose of this paper.

The Realistic Aspects

At the outset it must be said that industrial leadership does not want war. All sensible persons, regardless of their occupation or station in life, are fully aware of the waste and futility of war. It destroys lives, interrupts careers, erodes capital, exhausts scarce natural resources, and provides no final settlement of the issues involved. The arguments against excess profits taxation presented here are in no sense offered as a defense or protection of exorbitant profits to be made out of war as such.

The case against excess profits taxation rests on the following grounds:

(1) The conviction that such taxation is, on every count, economically unsound;

(2) The record of the impossibility of proper administration that was made in World Wars I and II;

(3) The evidence of its contribution to inflation and the cost of the military effort.

These points will be discussed in order.

I

An Excess Profits Tax Is Economically Unsound

The Elusive "Excess" Profit—The presumption underlying the concept of an excess, or excessive, profit is that there is a clear, sharp dividing line between a fair, normal, or reasonable profit for a given industry or business concern, on one hand, and an unfair, abnormal, or excessive profit on the other. No such dividing line exists as an economic reality. Profit is the economic return, or reward, for the successful assumption of risk. There are all degrees of risk among the great multitude of business enterprises in a flourishing economy. Every new business venture involves risk; so does every new industry; and even the oldest, strongest, best-established companies face the risk that their very age and apparent strength may not be adequate in a trial against young, vigorous competitors. Risk, in some degree, pervades all private, competitive enterprise.

It is impossible, by any statutory device, to weigh and measure the variables of risk. The managers and investors whose jobs and capital, respectively, are dependent upon the wisdom of their decisions can do this only imperfectly. That they make many mistakes is evidenced by the numerous instances of business failure.

Any statutory definition of an excess profit must necessarily be arbitrary and inadequate. In view of the wide differences in the profit return required to offset the particular risks involved and to assure the necessary flow of capital funds into the immense array of business ventures which make up our economy, an arbitrary measure of excess profit may in some cases allow a greater return than the risk may warrant, and in other cases set an altogether too low ceiling on profits. Such ceiling will ordinarily affect most adversely the new industries, the rapidly growing concerns, and enterprises that should keep all of their earnings in order to exploit the competitive opportunity that may lie before them.

Statutory Discrimination — In addition to discrimination arising out of the basic economic differences in risk, there is also a certain discrimination which results from the differences in applicability of the formulas used to different company experiences. For example, companies with high earnings in the base period will fare better than those with low earnings in that period. The conservatively capitalized companies will be harder hit than those with liberal capitalization under the invested capital method. There is given, in Table I, a summary of all corporation returns with net income and all excess profits returns in the years 1940-1945.

The difference between total corporation net income and excess profits net income is much greater than would be accounted for by the specific exemption of $5,000, which was raised to $10,000 for 1944 and 1945. There is no way of determining, now, the extent to which the corporations not subject to excess profits tax simply did not have earnings sufficient to bring them under this tax, or the extent to which the particular statutory formula used allowed them to have substantial earnings without being in the excess profits tax category.

Insofar as the use of an arbitrary formula for measuring normal or standard profits does set too low a ceiling on profits, it penalizes growth, expansion, bold adventuring into new business fields. In this respect it favors, relatively, the established, well-financed concerns and thus it tends to create conditions leading to monopoly by stifling the growth of potentially effective competitors.

Small Corporations Hit Hard—It is commonly supposed that only the large corporations have to pay excess profits tax. The facts are otherwise, as revealed by World War II experience. Table II shows, for the years 1940 through 1945, the number of corporations with net income up to $50,000, and the amount of excess profits tax paid by them.

The significance of the number of corporations in the above table may be seen from the fact that in 1940 the total number of excess profits tax returns was 13,440, of which only 2,032 were in the net income classes above $50,000. The largest number of returns filed was 68,202 in 1943, of which less than 20,000 showed net income above $50,000. The decline in number of returns, excess profits net income, and excess profits tax, in 1944 was produced by an increase of the specific exemption from $5,000 to $10,000 for that year.

The revealing thing about the table is the kind of squeeze that the excess profits tax put on the small companies. It clearly put a very serious limitation on their capacity to expand through retention and investment of earnings. It is hardly too much to say that the damage done them was far worse than that done to the large companies.

Relative Aspects of the Profit Picture

The recent record of business profits will be cited by some advocates of excess profits taxation in the attempt to show that these profits are large enough to warrant taxation at rates above those now imposed, or in such a way as to exact more taxes from the concerns having profits above some arbitrary standard or limit. In this connection, also, the course of prices is likely to be mentioned as evidence of peacetime "profiteering." The record and its meaning requires some attention.

General Advance of the Economy—The powerful inflationary impulse of the war financing carried on into the postwar years despite the sharp decline of government spending and of deficit financing.[1] It is inevitable that such an inflation should manifest itself in various ways and that the dollar amount of profits should be influenced, as it always is, by an inflationary expansion of the economy. Some pertinent data are presented in Table III.

The selected data shown in Table III illustrate, in a very general way, how the forces of supply and demand have been operating since 1946. The indicator of supply, namely the FRB index of production, shows how the output of goods has expanded with the completion of reconversion after World War II. In the period beginning with 1947 the level of output has become established on a definitely higher plane than in 1946. The preliminary estimates of annual rates for the first half of 1950 show a recovery of almost all of the ground lost in the leveling off in 1949.

On the demand side, we have the national income, which in the first half of 1950 was at an annual rate some $38.8 billions above the 1946 amount. The compensation of employees, business and professional income, and corporate profits are included to show the trend of some of the important elements in national income.

The forces of demand and supply meet in the market place, and the outcome is (1) the total of consumer spending and (2) the level of prices. These factors are interactive, for prices are a determinant of the amount of spending, while the amount of income that people are willing to spend is, in turn, a determinant of prices. The total of consumer spending was certain to rise with the increase

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[1] See H. L. Lutz, *Public Spending and the Private Economy*, NAM, 1949.

TABLE I

All Corporation Returns With Net Income, and Excess Profits Returns, 1940-1945

(Dollar amounts in millions)

Year—	All Returns With Net Income Number	All Returns With Net Income Net Income	Excess Profits Returns Number	Excess Profits Returns Excess Profits Net Income
1940	200,977	$11,203	13,440	$2,998
1941	264,328	18,111	42,412	12,073
1942	269,942	24,052	54,002	17,084
1943	283,735	28,718	68,202	22,307
1944	288,904	27,124	55,912	20,472
1945	303,019	22,165	52,097	14,165

Source: Statistics of Income, Part 2, for the several years.

TABLE II

Number of Corporations With Net Incomes Up to $50,000, Excess Profits Net Income and Excess Profits Tax

(Dollar amounts in thousands)

Year—	Number	Adjusted Excess Profits Tax Net Income†	Excess Profits Tax after Credits against Tax‡
1940	11,408	$114,373	$29,032
1941	28,360	360,113	128,982
1942	37,877	489,543	365,052
1943	48,720	552,555	488,499
1944	34,850	501,592	428,059
1945	36,388	501,885	394,637

Source: Statistics of Income, Part 2, for the several years.

†Adjusted excess profits net income was the income on which excess profits tax was levied. It was derived from normal tax net income by deducting the specific exemption, the excess profits credit, and some other items. The specific exemption was $5,000 through 1943 and $10,000 in 1944 and 1945.

‡Certain credits were allowed against excess profits tax as computed, such as an allowance for debt retirement, the postwar refund, and in lieu of the latter a straight reduction of 10% of the tax in the later years of its application.

Philadelphia Extension of Pennsylvania Turnpike Opened

Completion of 100-mile extension, linking Philadelphia and Harrisburg, increases current length of nation's most successful toll highway to 260 miles. Phenomenal success of original 160-mile section expected to be duplicated by additional link. Extended Turnpike seen as important influence in furthering Pennsylvania's industry and commerce.

HARRISBURG, Pa.—The idea of a safe, swift and direct automobile route from industrial Pittsburgh through the rugged Appalacnian Mountains, across rich farmlands, and on to metropolitan Philadelphia became a reality last week with the announced completion of a new 100-mile extension to the Pennsylvania Turnpike.

One prime-mover of the superhighway plan, The Keystone State's Governor James H. Duff, snipped a gold and blue ribbon stretching across the road at Valley Forge and led a procession of State officials, mayors and other notables down the Philadelphia Extension past the very place where, less than 25 months ago, he had broken ground for the construction of this $87,000,000 addition to the Pennsylvania Turnpike.

At the nine new interchanges between historic King of Prussia and Carlisle—and all along this giant concrete path which increases Pennsylvania's modern version of the Eighteenth Century toll road to a total of 260 efficient miles—country school children, Amish farmers, small-town businessmen and big city executives saw the dedication caravan of more tnan 100 cars move by on the world's richest as well as most beautiful turnpike.

To these people, who annually remind each other that "This Is Your Pennsylvania — Keep it Growing!", the progress of the Commonwealth and the growth of the turnpike are inseparable parts of the same dynamic dream. They may recall that only a decade ago the original 160-mile section of the turnpike, linking Middlesex, 16 miles west of the State capital at Harrisburg, with Irwin, 24 miles east of Pittsburgh, was completed. During the past 10 years, some 22,000,000 cars, trucks and busses shelled out an estimated $36,000,000 in tolls for the use of this all-weather expressway with its seven tunnels which penetrate the Appalachians and which help reduce the time and hazards of motor travel across the State. Last year alone, 3,850,000 vehicles paid about $7,051,000 for the use of the $70,000,000 highway—which did not cost Pennsylvania citizens a single dollar in taxes or other levies.

PICTURED ABOVE are the present membe s of the Pennsylvania Turnpike Commission: Edward N. Jones; Ray F. Smock; Thomas J. E 'ans, Chairman; James F. Torrance; Secretary-Treasurer, and James J. Coyne. Upon retirement of the $211,500,000 bonds issued to finance the project, the famed road will become a part of the Pennsylvania Highway System. (Photo reproduced with permission of Penelope Redd Jones, author of "The Story of the Pennsylvania Turnpike.")

Yet when the idea for building the original turnpike through the mountain barrier between Pittsburgh and the East was first presented, back in 1934, some people passed it off as an "impractical dream." Convinced, however, that the idea was neither "impractical" nor merely a "dream," members of the Pennsylvania Motor Truck Association spearheaded a drive for the project and backed a publicity campaign for the toll road.

Exacting surveys proved that the turnpike could be built along the abandoned right of way of the old South Penn Railroad, using seven of the eight partially completed tunnels begun during that ill-fated Vanderbilt enterprise. It would be necessary to build one more through the mountains. The rest was a matter of dollars—and $29,250,000 came from the Public Works Administration, while the remaining $40,800,000 was loaned by the Reconstruction Finance Corporation.

Initial Road Great Success

This original 160-mile stretch of the turnpike was opened on Oct. 1, 1940. On a single busy day, soon after, some 26,640 vehicles of all types passed through its interchanges—and every day since then an average of 6,211 use the road at an average toll of $1.65 each.

With the success of the initial 160-mile stretch, linking Pittsburgh and Harrisburg, to go by, blueprints were drawn up for the additional 100 miles of highway that would extend the Pennsylvania Turnpike on to the outskirts of Philadelphia. The tremendous engineering and construction job, which includes the building of 123 bridges and structures as well as a huge amount of landscaping work in addition to the actual task of making the road itself, will probably go down in the books as one of the largest and swiftest in history. Between the latter part of September, 1948, when the first contract for the new extension was awarded, and today, a number of construction miracles were performed. Most notable among these was the record set by the Williams Paving Company of Norfolk, Va., nearly 6,000 feet of concrete road, two lanes in width, during a single working day.

Philadelphia Extension Vital Link

This grand-scale Philadelphia extension to the Pennsylvania Turnpike is generally regarded as another link, an important one, in the coming 2,000-mile system of nonstop, express dream-highway system which, before too long, will spread from Maine and New Hampshire through New York, New Jersey, Connecticut, Delaware, Maryland and Ohio.

Beyond this, the highway commissions of all other states in the Union which are either planning or building toll roads are paying careful attention to the new Pennsylvania Turnpike Extension. If this new toll road proves as successful as the original highway — and the shrewd and thoughtful figuring of all the big bankers, investment companies and other private sources who've financed the extension seem to indicate it will—the results will certainly stimulate major turnpike projects throughout the entire nation.

Back of this country-wide interest in the fate of the Pennsylvania Turnpike experiment in free-enterprise road operations is the simple realization that a growing number of motorists and truckers are more than willing to pay small tolls for the luxury of traveling comfortably over swift routes without slowing intersections, steep grades, sharp curves or bothersome traffic jams. This fact is substantiated by statistics showing that, while the production and use of motor vehicles has risen greatly in recent years, Federal and State highway construction programs have not shown even comparable increases. In the face of this impending highway crisis, according to authority, Col. E. R. Needles, President of the American Road Builders Association, the one bright spot and hope for the future of motor travel rests with such projects as the Pennsylvania Turnpike.

State's Economy Enhanced

However, when it comes to the importance and meaning of such a super express highway as their famous turnpike, progressive-minded Pennsylvanians require little outside authority to support their viewpoint. From well-informed people within the Commonwealth, like Park H. Martin, Executive Director of the Allegheny Conference of Community Development, they have received ample evidence tnat Pittsburgh's rise from a frontier town to a steel capital of the world has been closely allied with the development of highways between East and West, and that one of the truly great contributions to the further expansion of that thriving metropolis is that of the newly completed Philadelphia Extension to the Pennsylvania Turnpike.

Broadening its implication, Pennsylvania's Secretary of Commerce, Theodore Roosevelt III, declared that the extended turn-

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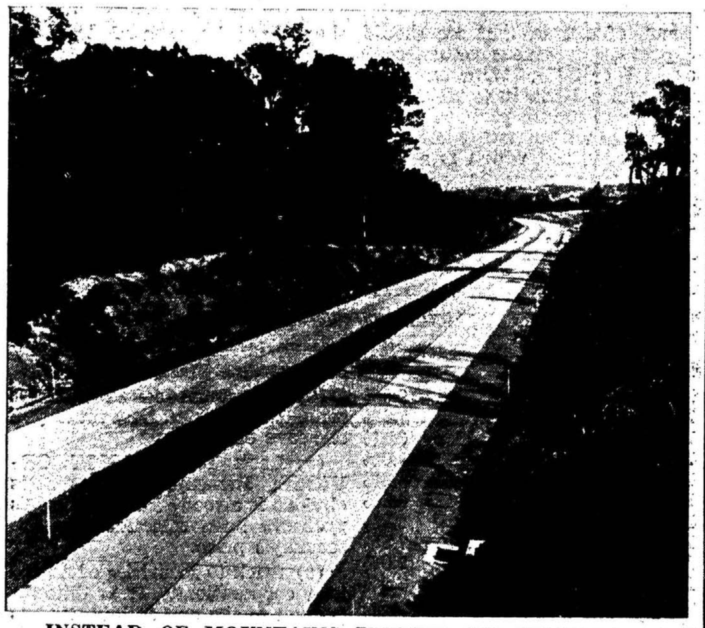
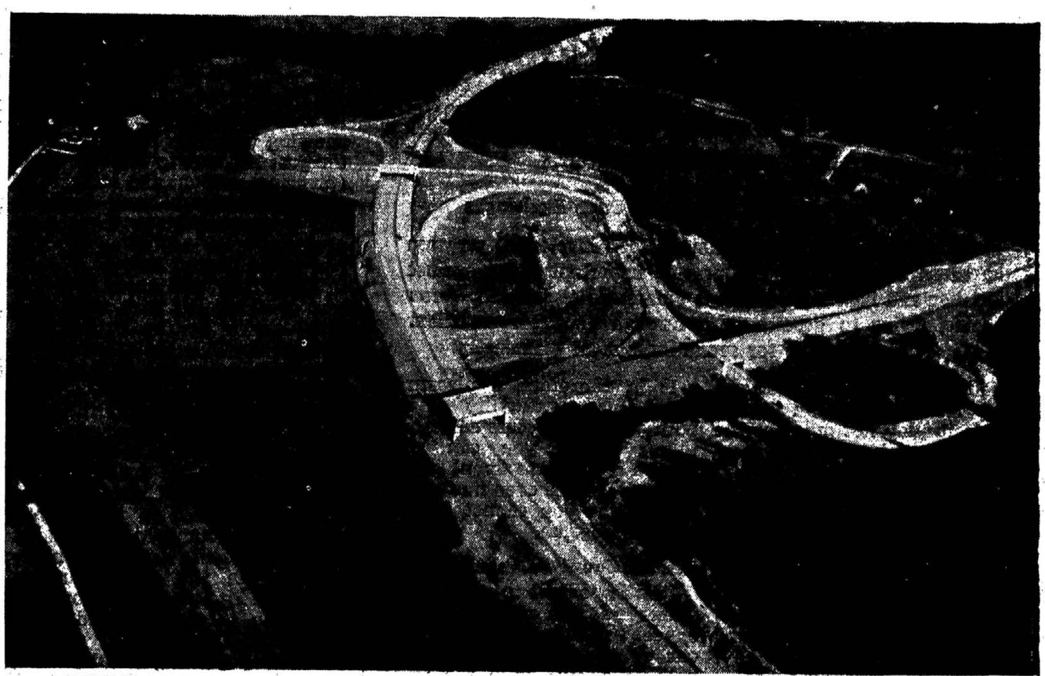


INSTEAD OF MOUNTAINS PIERCED BY TUNNELS and canyons of rock, there are panoramas of farmland stretching off to the horizon. Here and there the new extension crosses a sparkling stream of mountain water or slips through a wooded game preserve, or passes barns filled with Pennsylvania tobacco.



BIRD'S-EYE VIEW of an interchange on the new extension of the Pennsylvania Turnpike. Eight similar interchanges between Carlisle and King of Prussia lead to some of the state's best-known communities, industrial cities, as well as those with historical backgrounds.

Revenues and Users of Original Turnpike Section at New Peaks

Toll income for the 12 months ended Aug. 31, 1950, amounted to $7,704,244 as against $6,210,381 for the previous period. Total vehicles using facility during each 12-month period were 4,143,792 and 3,725,036, respectively. Further gains in revenue anticipated through opening of Philadelphia extension. Bond interest met and highway maintained in perfect condition even during war period when traffic was curtailed.

HARRISBURG, Pa. — Revenues from, and users of, the original Pennsylvania Turnpike, extending 160 miles from Carlisle to Irwin, reached new high levels during August, 1950, and for the 12-months' period ended with August, it was revealed here at the dedication ceremonies opening the 100-mile eastern extension of the turnpike from Philadelphia through Harrisburg to Carlisle.

The 547,250 vehicles using the Pennsylvania Turnpike in August paid tolls of $923,908. In August, 1949, vehicles consisting of buses, cars, motorcycles, and trucks, totaled 471,749. They paid tolls of $712,262. Users and revenues from them last August, which normally is the peak traffic month of the year, were up 16% and 29.7% respectively over August, 1949.

Vehicles Up 11.2% and Revenues 24% in Year

Vehicles using the 160-mile "original" turnpike for the 12 months ended Aug. 31, 1950, totaled 4,143,792 and they paid tolls aggregating $7,704,244. This contrasts with 3,725,036 vehicles and $6,210,381 tolls in the same period ended Aug. 31, 1949. These are gains of 11.2% and 24% respectively.

From the Oct. 1, 1940, opening of the "original" turnpike through Aug. 31, 1950, it has been used by 23,438,013 vehicles which paid tolls totaling $36,723,966. Meanwhile other revenues, consisting for the most part of rentals and leases from gasoline service stations, restaurants, etc., totaled $2,347,141, bring gross revenues to an approximate aggregate of $39,071,107. This record was achieved despite the period from Pearl Harbor through V-J Day when passenger traffic was virtually nil.

Philadelphia and Western Extensions to Help "Original"

Opening of the 100-mile Philadelphia, or eastern, extension to the public in November, 1950, naturally will increase the use, and therefore the revenues of, the "original" 160-mile turnpike, which also will benefit from the public opening of the 67-mile western extension, from Pittsburgh to the Ohio border, at Petersburg, late in 1951.

Engineers estimate that in 1952, when the whole Pennsylvania Turnpike system, extending 327 miles from Philadelphia to Petersburg, is open to the public, tolls for that year will approximate $16,554,000. Gross revenues from all sources are expected to reach $17,478,000, of which around $924,000 will be derived from rentals and leases, based on the sales of gasoline, the serving of meals at restaurants, along the turnpike, and other miscellaneous revenue sources.

No Property Tax

Construction of the Pennsylvania Turnpike was accomplished, and operations conducted, without the levying of any taxes on Pennsylvania property.

Interest Met Promptly Despite War Traffic Cut

Despite the dark days in the 42-month period between Pearl Harbor and V-E Day, when traffic using the turnpike averaged only 3,080 vehicles daily — compared with original estimates of 4,270 for 1942, 4,920 for 1943, and 5,410 for 1944—the turnpike never failed to promptly meet interest payments on its bonds nor to maintain and operate the highway in perfect condition.

There are outstanding $211,500,000 of Pennsylvania Turnpike system bonds. They consist of two main blocks, one of $134,000,000, sold in August, 1948, and one of $77,500,000 sold in September, 1949.

The $134,000,000 block consists of: $47,000,000 of serial bonds yielding 2¼% interest, and due from June 1, 1952 to June 1, 1968, which were sold for the purpose of providing funds for the retirement of the original debt; and $87,000,000 of term bonds, bearing interest at the rate of 3¼% and due June 1, 1988, which were sold to construct the Philadephia extension of the "original" turnpike.

All Turnpike Bonds Well Above Original Offering Prices

The $77,500,000 of bonds sold bore an interest rate of 2.90% and were for the purpose of constructing the 67-mile western section from Irwin to Petersburg.

Approximately 200 of the nation's leading investment banking firms, headed by a syndicate group of four firms—Drexel & Co., of Philadelphia; B. J. Van Ingen & Co., Inc., Blyth & Co., and The First Boston Corp., all of New York—sold these $211,500,000 of Pennsylvania Turnpike bonds to thousands of investors, including institutions, such as insurance companies, colleges, universities, and individuals.

At the week-end of Oct. 30, 1950, all of these turnpike bonds were selling at substantial premiums over their original offering prices, the 3¼s being quoted at 105.60 bid and the 2.90s bonds at 104.50 bid.

New Motor Arteries Vital to Industrial Center's Growth

Pittsburgh's rise from a frontier town to the steel capital of the world has been closely allied with the development of highways between the East and West, according to an article by Park H. Martin, Executive Director of the Allegheny Conference of Community Development, in the "Highway Builder."

One of the most important projects contributing to the recent industrial expansion in the Pittsburgh district is the Philadelphia extension of the Pennsylvania Turnpike, Mr. Martin says.

"Substantial savings in transportation costs result from long-distance movement of goods and products by motor freight carriers from loading platforms of plants and factories directly to the purchaser's doorstep," Mr. Martin says. "The Pennsylvania Turnpike already provides many manufacturers in this state with lower transportation costs than their competitors. With the new extension this advantage will be further increased—an asset many manufacturers are taking into consideration in their current construction plans."

What Can We Expect From Common Stock Investments?

By GEORGE F. SHASKAN, Jr.*
Partner, Shaskan & Co.,
Members New York Stock and Curb Exchanges

Mr. Shaskan maintains a common stock investment program based on sound values can provide important hedge against inflation and higher yield than is obtainable elsewhere. Warns against trying to get-rich-quick through market speculation. Offers ten rules for sound investment planning.

I believe that securities and security markets have an important role to play not only for the continuance of the private enterprise system such as we now enjoy, but also for each and every one of us. However, for many reasons which we do not have time to examine now, most people are extremely wary of anything to do with securities and investments, and the name of Wall Street is generally held in considerable disrepute. Although there are some 80 million people in this country holding insurance policies, the government estimates that there are less than 6 million spending units owning securities in private enterprises.

Geo. F. Shaskan, Jr.

This is perhaps surprising in view of the fact that this country has become the most productive nation in the world and has done so building on the private enterprise system which in turn is based upon private investment and risk-taking. It is even more surprising when you stop to consider that no matter how antagonistic we may be towards Wall Street most of us are indirectly investors. After all, we hold savings accounts and insurance policies the funds of which are invested in securities and other assets.

*An address by Mr. Shaskan before the Lions Club, Larchmont, N. Y., Oct. 18, 1950.

It is, therefore, a pleasure to have this opportunity to meet with you and discuss some of the things which you can expect from a sound investment program—and, perhaps, even more important—what you cannot get from such a program.

Don't Count on Quick Killings

It is important to realize at the outset that you cannot reasonably expect to make a "quick killing" out of the market. This latter path is strewn with the wrecks of the best intentions and the fondest hopes. It simply cannot be done. The speculator is bound to lose in the long run.

Reasonable Expectations

If we can't all become millionaires, what then can we expect from an investment program? I think that we may reasonably anticipate two goals: First, and most important in my opinion, is inflation protection. We are all well aware of what rising prices can do to our income. In the past 10 years we have seen the value of the dollar fall in half. This is just as real a loss as though we had lost half of our money. Savings and insurance, for all the many benefits they offer, cannot give us this protection against rising prices. Only last week some of the government savings bonds which I purchased 10 years ago were redeemed. However, the money I received was able to buy only half of what it would have bought when I purchased these bonds. And this, despite the fact that government bonds are probably the "safest investment in the world." A sound investment program, on the other hand, will afford some measure of protection against inflation since security prices and dividends tend to rise with rising prices.

Fall in Dollar

I think this inflation protection is well brought out in Chart I, showing what has happened over the past 10 years to the real value (principal amount and income) of annuities, savings bank deposits, and a common stock investment program *after* adjusting for the rise in the cost of living. We see in this chart that since 1940 the cost of living has increased some 68%—shown by the dotted line, number 3. This is the Bureau of Labor Statistics index, which, if anything, in my opinion sharply understates the real rise in living costs. An annuity during these 10 years, as shown by the dash-cross line number 4, has declined some 47% in real purchasing power value. A deposit in the savings bank just about held its own, as shown in the broken line, number 2. On the other hand, a composite group of common stocks, in this case Standard & Poor's "90-Stock Index," one of the more popular general groups, has enjoyed a rise of about 34% as shown by the solid line number 1.

How much further is inflation going? Of course, none of us can really answer that question. We know that since Korea we are in a new wave of spiralling prices with spot commodity prices up 30%, wholesale prices up 7% and the cost of living higher by almost 5%. This may be temporary and governmental control measures may stop the upsurge and even (let us hope) reduce prices somewhat. However, this we do know, that the history of prices over any long run period is *up*. This is well demonstrated in this chart (Chart II), showing the course of living costs in this country over the past 100 years. As you can see, living costs have increased in this period by almost 350%. In this connection—and since we have just had such excellent food—you may be interested to compare a few prices on your menu here with those appearing on a menu of a leading New York restaurant some 100 years ago. A cup of coffee at that time was one cent, hash three cents, corn beef and cabbage four cents, beefsteak also four cents, and for those who wished to splurge with roast chicken there was a charge of 10 cents. A regular dinner called for the total sum of 12 cents.

Goal of Greater Income

The second goal which I believe we can reasonably expect from a sound investment program is a more adequate income than we might otherwise obtain from our surplus funds. This does not mean, of course, that we should expect an enormous return such as 10% or 20%. With some effort and a little luck we should be able to obtain perhaps 5% or 6% which will certainly not make us wealthy, but which is a little better than what is available from some of our alternative opportunities.

Taking all of the common stocks listed on the New York Stock Exchange, for example, the return in each of the last 10 years, based upon the prices obtaining at the end of the year, was as follows:

1941	9.3%
1942	7.8%
1943	6.1%
1944	5.0%
1945	3.6%
1946	4.8%
1947	6.3%
1948	7.8%
1949	7.0%
1950	7.0%

The 1950 figures are based upon stock prices prevailing in August of this year.

Guideposts for Sound Investment Program

These being the goals which we may reasonably expect from a sound investment program, how do we arrive at such a program? We cannot, of course, review this in detail in the few minutes which are remaining, but there are some guideposts which may be helpful in considering an investment program.

(1) The first and by all odds the most important is diversification. No matter how good an investment opportunity may appear to be don't put all your eggs in one basket. We are all fallible and the most carefully calculated plans often go astray.

(2) Have patience. If you have purchased a sound security do not become discouraged if it doesn't rise along with others or if it becomes depressed. If the security was sound to begin with you should be willing to purchase additional shares at a lower price rather than throwing it overboard.

(3) Remember that security prices fluctuate. If you miss an opportunity to purchase a security don't run after it—chances are you'll be able to obtain it some other time or that you will be able to purchase something just as good. As J. P. Morgan is reputed to have said, "Don't run after a trolley car or a beautiful woman, there will be another one along in a few minues." So with securities.

(4) Always take the long-range view. Remember as an investor you are not out to beat the market. Events of the moment should not be allowed to cloud your thinking.

Beware of Sacred Cows

(5) Beware of sacred cows—no matter how valuable your grandfather may have said a security was, remember that times change, consumers' preferences change, etc.

(6) Beware of tips—the fellow giving you the tip probably knows less about it than you do. "Inside information" is not generally available, and such tips as go as "inside information" are usually dangerous.

(7) Invest on sound business evaluation—not on how much you can save on taxes.

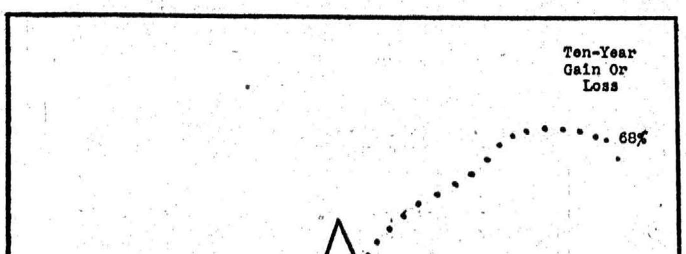
(8) Look for the NOT OBVIOUS. Remember that what is obvious is already known and has probably been discounted in the security's price.

(9) Stick to securities of American corporations. It is difficult enough to try and follow what is going on in this country—certainly almost impossible on what is going on outside of the country. Moreover, investments abroad are subject to all sorts of exchange controls, government decrees, etc.

(10) Stick to securities of established companies with sound earnings and dividend records—avoid new issues, particularly if they are from companies with an unproven record. You may miss the televisions and the scotch tapes, but you will also miss the Tuckers.

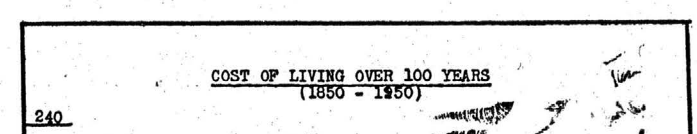
CHART I

HOW INFLATION AFFECTS YOUR SAVINGS



1 - Standard & Poor's 90-Stock Index
2 - Savings Bank Deposit - Savings & Loan Ass'n. - Savings Bonds
3 - Cost of Living
4 - Annuity (Cash Refund)

CHART II



Goulet & Co. Is Formed in New York

Wm. F. Goulet

William F. Goulet announces the formation of Goulet & Co., 25 Broad Street, New York City, to conduct a general over-the-counter securities business. Prior to now Mr. Goulet has conducted his business as an individual at the same address.

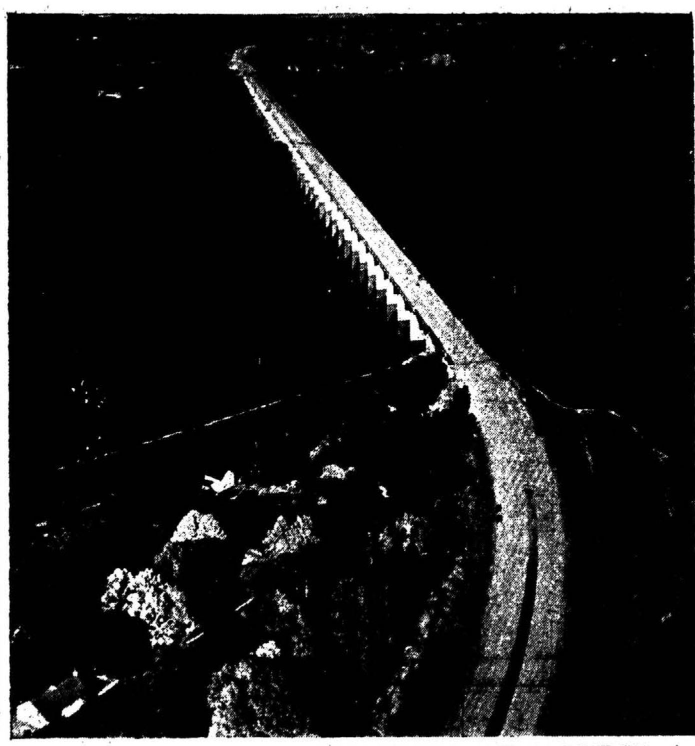
Henry B. Warner Co. Expands Facilities

PHILADELPHIA, Pa.—Henry B. Warner & Co., Inc., members of the Philadelphia-Baltimore Stock Exchange, have installed a telemeter direct to Ames, Emerich & Co., Inc., Chicago, members of the Midwest Stock Exchange. The firm also has removed its offices to larger quarters at 123 South Broad Street.

Albert Branin, formerly with the Philadelphia office of J. Arthur Warner & Co., Inc., has become associated with Henry B. Warner & Co. as salesman covering the South Jersey territory.

With R. L. Day & Co.

John deF. Buckingham has become associated with R. L. Day & Co., members of the New York and Boston Stock Exchanges, in the firm's New York office, 14 Wall Street.



THE MAGNIFICENT SUSQUEHANNA RIVER BRIDGE at Harrisburg, as seen from the air.

Continued from page 10

Philadelphia Extension of Pennsylvania Turnpike Opened

pike's economic advantages will be immediate and many. Not only will it relieve overburdened highways of congestion and the weight of heavy traffic—lightening problems stemming from the heavy movement of truck convoys through small cities and towns along the way—but, he points out, the superroad will result in important time-saving for shipments by truck. At the same time, in the bordering turnpike route Roosevelt foresees industrial development for off-route towns and hamlets which, heretofore, had been hampered by the lack of swift transportation facilities.

To the motorist himself the penny-a-mile toll he forks out for driving his sedan across a concrete expressway, like the Pennsylvania Turnpike, is a cheap price for his freedom from jay-walkers, traffic tie-ups, steep grades and sharp curves.

To truckers, who pay rates based on the type of their vehicles, the saving in time, gasoline and driving strain have meant a material economy in operating costs and well worth the fare the turnpike charges. As a matter of fact, truckers currently represent the turnpike's largest single source of revenue.

Bus companies, too, are becoming attracted to the turnpike in increasing numbers as they also are finding that the highway cuts valuable hours of running-time off their schedules. Between Pittsburgh and Harrisburg they now save from two to four hours of travel-time regularly, a fact which places the turnpike rates well within the realm of an absolute bargain.

That is why it seems quite clear, from the standpoint of the motorist, the trucker, the bus operator—as well as the people of Pennsylvania—this new extension to the world's richest and most successful highway is a breath-taking step forward.

Pennsylvania Brevities

U. G. I. Earnings Higher

As the flow of natural gas to subsidiaries continues to increase, estimates of net income of United Gas Improvement Co., both parent company and consolidated, indicate that 1950 will exceed results reported for 1949. Full benefit is not expected until the latter part of this year or early in 1951.

Consolidated net income for 1949 was reported as $3,168,253, equivalent to $2.02 per common share. The parent company alone reported $2,206,556, or $1.41 per share. For the 12 months ended Sept. 30, 1950, parent company earnings were $2,330,780, equal to $1.49 per common share, with the anticipated "fat" fourth quarter yet to come.

Although gas and electric sales are running ahead of 1949, increases in costs and expenses have absorbed a portion of the net gain. With larger receipts of natural gas next year, the operating ratio is expected to improve. The parent company has been authorized to advance slightly under $5,000,000 to four subsidiaries to help pay for additional distribution facilities.

U. G. I. is currently paying common dividends at the rate of $1.40 per year.

* * *

Pennsylvania Wage Payments

According to the Federal Reserve Bank of Philadelphia, factory workers in Pennsylvania received approximately $68,700,000 per week in September, a new high record.

* * *

Autocar Settles Strike

A 21-day strike of workers at the Autocar Co., Ardmore, Pa., the first in the 50-year-old company's history, has been settled by granting a "package" wage increase amounting to 13½ cents per hour, plus an automatic 4-cent raise at the end of each of the next three years. Also provided is an escalator clause based upon a cost-of-living formula to be computed quarterly.

The strike, which involved approximately 1,000 members of UAW-CIO Local 131, was conducted on rather an unusual "friendly-enemy" basis. The Union permitted an operator to run an elevator for 300 non-striking office employees. A shipment of replacement parts was dispatched to Korea without hindrance. Watchmen and a fireman performed their duties on the premises and cooperation was extended to local police in preserving orderliness. Management, on its part, distributed raincoats to pickets during showers. During the strike, Edward F. Coogan, company President, thanked the strikers by letter for their moderate behavior.

* * *

Pennsylvania Power & Light Co.

ALLENTOWN — Pennsylvania Power & Light Co. estimates the cost of its continuing construction program from the present time through 1954 at $76,100,000. Approximately $5,000,000 cash is on hand and the company expects to produce $47,000,000 from reserves, earnings and other internal sources. The remaining $24,000,000 will be raised through the sale of securities, $15,000,000 of which is tentatively scheduled for issuance within the next 15 months.

* * *

Philadelphia Employment Up

PHILADELPHIA — C. Pierce Taylor, Philadelphia district manager of the Pennsylvania State Employment Service, reports total employment in this labor market area at 1,538,100, a 2.4% gain during the previous 60 days and the highest since late 1948. The upward trend is continuing and will reach new record levels in November, Mr. Taylor believes.

* * *

Baldwin Locomotive Co.

EDDYSTONE — At a special stockholders' meeting held last week, amendments to Baldwin Locomotive Co.'s articles of incorporation were approved which would increase the authorized common stock from three to five million shares and provide for a change in name to Baldwin-Lima-Hamilton Corp., provided a proposed merger plan is effectuated.

After a distribution of certain assets to its own stockholders, Baldwin seeks to consolidate with Lima-Hamilton Corp. by issuance of new Baldwin-Lima-Hamilton stock to present Lima-Hamilton stockholders on a share-for-share basis. It is anticipated that the proceedings will involve the setting up of a Baldwin securities company.

* * *

James Lees & Sons

James Lees & Sons, carpet manufacturers, report nine months' net income of $3,857,654, equal to $4.62 per common share, compared with $2,581,452, or $3.05 per share, in the similar 1949 period. Both sales and earnings are at new record levels.

* * *

Penna. RR.'s New Silhouette

Straight lines are regarded as the height of fashion by the Pennsylvania Railroad. By the end of the month, the road's $9,000,000 tunnel and track improvement program on the main line between Pittsburgh and Columbus will be completed. The work involves the straightening of curves and the elimination of four restricting tunnels. The "new look" will enable the road to move larger-type box cars and unusually large consignments on flats and gondolas that heretofore have necessarily been routed over lengthy detours.

Pennsylvania Railroad has ordered 96,000 tons of new steel rail, to cost $6,600,000, deliveries to begin in January.

* * *

Plans for New Steel Plant

Construction of Carnegie-Illinois Steel Co.'s new seaboard steel mill at Morrisville, Pa., is expected to start after the first of the year. Announcement of the acquisition of about 3,800 acres of land to provide the site was made last December. This development and the manner in which it is tied in with long-term plans of U. S. Steel Corp. are a matter of interest to those who like to see "big wheels" in motion.

After the close of the war, U. S. Steel began aggressively to look about for new and additional sources of iron ore. The giant Mesabi Range in Minnesota, discovered in 1890 and which has been supplying about 60% of the country's requirements, is running low. Low-grade ore is still plentiful but the increasing costs of extraction makes higher steel prices inevitable. After a search that lasted two years, U. S. Steel found its treasure. It has staked out and validated its claim to a vast mountain of exceptionally high-grade ore in Venezuela. It may cost the steel company something like $200,000,000 and take four years before mining facilities are completed and the ore starts moving to the U. S. by boat at the rate of at least 10,000,000 tons a year. But by that time the new Pennsylvania seaboard mill will be completed and ready to receive it.

* * *

P. T. C. Reports Loss

The Philadelphia Transportation Co. announced that it lost $393,524 during the first nine months of 1950, wiping out a profit of $236,980 recorded for the first six months. The better first half showing, according to company officials, was due largely to the mild winter weather which saved the company most of the $400,000 to $500,000 it usually spends annually for snow removal.

The company's schedule of higher fares, filed earlier in the year, has not been acted upon by the Pennsylvania Public Utility Commission. It is considered doubtful that relief, if granted, can swing the current year into black figures. The Transport Workers Union Local 234 (CIO) has already served notice that it expects further wage increases in the new contract to be signed next February.

* * *

Up Zippers!

MEADVILLE—Talon, Inc., reports that demand for zippers increased substantially during the third quarter of 1950 because of economic conditions arising from the Korean outbreak. As a result shipments were at a high level, and for the first nine months of the year were ahead of the comparable 1949 period. There is currently a substantial backlog of orders and all plants of the company are in full operation.

Despite increases in expenses and taxes, net income for nine months is reported at $2,048,302, equivalent to $1.75 per common share, compared with $1,912,795, or $1.64 per share in 1949. Moderate price increases on certain fasteners were put into effect in the third quarter.

* * *

Pennsalt Makes Money But No Salt

For the nine months ended Sept. 30, Pennsylvania Salt Manufacturing Co. reported net sales of $29,617,541 and net profit of $3,136,601, equal to $3.53 per share of common, compared with $25,-

Continued on page 16

Joins E. F. Hutton

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Harry E. Bartholmew is with E. F. Hutton & Company, 623 South Spring Street.

Mutual Funds

By ROBERT R. RICH

Increased Reserves Not Likely to Lessen Inflation Outlook

Despite an increase in bank reserve requirements, when, as and if they are imposed, the outlook is likely to remain inflationary in the opinion of E. W. Axe & Co., Inc. Moreover, the firm contends, the situation will not be changed as a consequence of actions of other government agencies, such as imposition of rigid price controls and reduction in production of unessential consumers' goods. The basic elementary fact, according to a recent issue of the "Axe-Houghton Survey of the General Financial Situation," is "that wars and preparation for war are inflationary and there is not much that can be done about it." Price and related controls, the survey observes, can only serve to dam up demand until some later date as in the case of World War II.

Story of Mutual Funds Available to Bankers

The Axe-Houghton Fund, Inc., New York City, is making available to bankers and investment bankers a copy of a book entitled "What Every Banker Should Know About Mutual Funds." The author, Morris M. Townsend, Vice-President, Axe-Houghton Funds, has for many years occupied an important role in the fields of banking, investment banking, estate planning and life insurance. Prepared as a guide to bankers on the subject of mutual funds, the booklet describes in minute detail the functions and operations of investment companies.

Distributors Group Inflation Booklet Extremely Popular

We won't attempt to prove it, of course, but it's a pretty safe bet that no other word appears in print more often these days and is the least understood in its basic implications than the term "inflation." This fact readily explains why Distributors Group's interesting study on the subject has been in such demand, so much so that several printings have been necessary. Bearing the caption "Inflation," the brochure discusses the topic under these interesting subtitles: "What It Is—How It Affects You—What You Can Do About It."

Net Asset Value of Stein Roe & Farnham Fund Above $2 Million

The Stein Roe & Farnham Fund Inc. has passed the $2,000,000 mark in net asset value in just over a year of public sale, Harry H. Hagey, Jr., President, announced Oct. 30.

"The rapid growth of our fund, along with the increased public acceptance of investment trusts in general," Mr. Hagey said, "indicates growing public realization that only through such funds can the investor of moderate means share with large investors the benefits of diversified ownership of securities and professional supervision.

"The investing public, the capitalists along Main Street and the rural free delivery routes, are buying investment trusts as a hedge against inflation and the current dilemma of the declining dollar," Mr. Hagey explained.

Net asset value of The Stein Roe & Farnham Fund, an open-end investment company, was $2,029,808, equivalent to $60.29 a share on the 32,995 shares outstanding as of Oct. 25. The fund was first offered for public sale Oct. 7, 1949, at which time the price was $51.37 a share.

Coincidental with the announcement of the $2 million milestone, Mr. Hagey released the Fund's report for the nine months ended Sept. 30, 1950. In a letter to shareholders, Mr. Hagey commented:

"The general expectation, which we share, is that although business activity might recede moderately over the near term, any such dip would be of short duration and would be followed by an extended period of high volume. This view rests on the basic assumption that defense expenditures will be increased to, and thereafter maintained at, a level which would assure near-capacity operations."

"Under these circumstances," Mr. Hagey continued, "it seems to us that over the longer term the risk of further inflation is sufficiently great to require substantial common stock ownership as a protection against it."

The Fund was organized by Stein Roe & Farnham, investment counselors of Chicago. The firm acts as manager and investment adviser under a contract with the Fund.

Keystone Spells Out Tax Saving Opportunities

Opportunities to save on estate and income taxes under the new tax law, in effect since Oct. 1, are reported in a timely study prepared for investors and just made public by the Keystone Company of Boston.

The savings discussed, while not new features, are still available under the new law and are of the kind frequently overlooked each year at tax time.

The investment company publication, "A Check List of Tax Savings," has been made available to anyone interested in the subject. It lists eleven specific instances in which 1950 taxes may still be reduced through gifts or by taking maximum advantage of capital losses on securities. The principle involved in each instance is simply but fully explained and each is illustrated so that the manner in which the principle is applied may be readily understood.

Included in the tax saving opportunities described in one category are the $30,000 and $60,000 basic gift exemptions, the $3,000 annual exclusion and others involving gifts. In the other are the tax advantages offered by proper application of long-term and short-term security losses to offset gains and income.

The brochure stresses the importance of saving all of the taxes to which the investor is rightfully entitled. It points out that such saved dollars, as they are not taxable, are worth more than the same number of income dollars.

Making a Cushion Out of Dollar Bills

The above caption takes poetic license with the heading contained on a booklet prepared by the National Securities and Research Corporation entitled, "Trying to Make a Cushion Out of Dollar Bills." Therein the author points up the importance of mutual funds as a vehicle for the "fair weather" savings of the average investor. Money in this category is described as the amount left over after provision has been made for the "umbrella and the raincoat."

National is also making available to dealers two investment programs, one for $10,000 and one for $100,000, utilizing the following listed four defense funds:

Bond Series—A Defensive Investment.

Balanced Series—A Prudent Investment.

Institutional Series—A High Grade Investment.

First Mutual Trust Fund—A Conservative Investment.

Dividend Shares Reports Record High Net Assets

Total net assets of Dividend Shares, Inc., as of Sept. 30, 1950, were the highest for any reported period in the history of the company. Total net assets of the corporation, an open-end investment fund managed by the firm of Calvin Bullock, amounted to $84,599,792, equal to $1.75 a share on the outstanding capital stock, compared with $77,743,380, or $1.57 per share on June 30, 1950, and $68,870,086, or $1.51 a share, on Sept. 30, 1949.

Investments in common stocks on Sept. 30, 1950, constituted 86.72% of total net assets: investments in high grade bonds, 9.01%; and cash, etc., 4.27%. Investments costing $65,086,967 had a market value of $80,984,075 on Sept. 30.

The largest common stock holdings on Sept. 30 were in the public utility group, shares of which comprised 14.72% of total net assets. Holdings of oil and gas common stocks amounted to 14.16% of total net assets; retail trade stocks, 6.23%; and automotive and accessory stocks, 6.20%.

Five common stocks were added to the portfolio during the three months ended Sept. 30: 15,000 shares of Bethlehem Steel; 4,000 Pittsburgh Consolidation Coal; 11,700 Pure Oil; 3,200 Radio Corp.; and 6,200 West Penn Electric. Other purchases of common stocks included 10,000 Rock Island Railroad; 4,700 Flintkote; 7,500 Illinois Central Railroad; 5,000 Montana Power; 4,000 National Cash Register; and 8,200 Standard Oil of California.

Holdings of four common stocks were eliminated from the portfolio during the quarter: 20,000 General Telephone; 10,000 National Lead; 2,200 Toledo Edison; and 4,600 United Engineering and Foundry. Other sales of common stocks included: 10,200 Cincinnati Gas and Electric; 5,100 Consumers Power; 10,000 International Nickel; 7,000 Ohio Edison; and 8,000 Phelps Dodge.

Bullock Fund Distributions Up Over 1949 Payments

Directors of Bullock Fund, Ltd., declared a year-end distribution of 47 cents a share from net investment income and of 68 cents a share from net securities profits. Both are payable Nov. 24 to stockholders of record Nov. 15.

With the above the company will have paid this year, from net investment income, dividends aggregating $1.07 a share compared with 92.4 cents per share from the same source in 1949. The $1.07 is the highest amount per share paid from net investment income in any fiscal year in the history of the company.

The distribution of 68 cents a share from net securities profits compares with a distribution of 7 3/5 cents per share paid from that source last year. In both years the distribution from net securities profits was paid in the final quarter only.

Purcell Is Chairman Of Investors Services

Robert W. Purcell, director of Investors Diversified Services, Inc., since May, 1949, was elected Chairman of the company's Executive Committee at a regular meeting of the board of directors held Oct. 27 at the Home Office in Minneapolis. Investors Diversified Services, Inc., is the top management company of the Investors Group whose operations consist of the issuance of face amount certificates and mutual investment company shares in the United States and Canada. Total assets managed by this company now aggregate approximately $750,000,000.

Mr. Purcell is also Vice-President and Vice-Chairman of the board of directors of Alleghany Corp. and of the Chesapeake and Ohio Railway Co.

Boston Inv. Club To Hear Uhrbrock

BOSTON, Mass.—The next regular Dinner Meeting of the Boston Investment Club will be held at the Boston Yacht Club on Thursday, Nov. 9, at 5:15 p.m.

The speaker will be E. Frederic Uhrbrock, Jr., head of the Statistical Department of Vilas & Hickey, specializing in railroad security analyses. His talk will be entitled "Outlook for Railroad Equities."

Mr. Uhrbrock is a member of the New York Society of Security Analysts, and also a director of the John H. Lewis Fund.

Economic Tendencies Affecting Trust Investment Policies

By NEIL H. JACOBY*
Dean, School of Business Administration, University of California, Los Angeles

Dr. Jacoby lists and analyzes major long-run economic tendencies which affect trust investment policy, such as: (1) growth tendency of American economy and industries; (2) trend of governmental activities to override private economic activity; (3) tendency of monetary and fiscal policy toward maintenance of "easy money conditions"; (4) continued course of rising price levels, and (5) proneness of individuals and institutions to avoid risk. Says tendencies favoring equity investments should be strengthened.

Neil H. Jacoby

Trust officers are concerned with the management of funds for the benefit of living persons, so I propose to discuss some major tendencies in the American economy that appear to bear on personal investment policy. It will be necessary to concentrate attention upon a few economic trends of long duration and overriding importance. We shall not consider short-term influences bearing upon investment values, although they may be of strategic significance for limited periods of time. I assume that trust officers can and should take a long-run view of investment values. They are not primarily seeking short-term capital gains for their beneficiaries, so much as the conservation of capital funds and, if possible, their growth through time.

The major long-run economic tendencies which, as I see it, affect trust investment policy include the following:

(1) The tendency of the American economy, and of most large business enterprises operating in that economy, to grow.

(2) The tendency for governmental activities to grow relatively to private economic activity, and for taxation to appropriate a rising share of the national product.

(3) The tendency for monetary and fiscal authority to attempt to maintain "easy money" conditions.

(4) The tendency for price levels to rise through time.

(5) The tendency of individuals and institutions to avoid risk, to seek "security" and to demand relatively high premiums for carrying uncertainty.

With respect to each of these five broad economic tendencies let us inquire: **first,** into the evidence of its existence during past years; **secondly,** into the probabilities that this tendency will continue in future years; and **thirdly,** into its major implications for trust investment policy.

Growth of the American Economy

By far the most significant and striking fact about American economic history is the fact of rapid growth. It would not be necessary to mention this were it not true that the lapse in the fast pace of economic development experienced during the depression years of the 1930's continues to play a large part in our thinking. In the long view, the American economy has displayed a dynamism and progressiveness that is truly remarkable when judged by the performance of other industrialized nations. During the 40 years between 1900 and 1940 the labor force grew from 29 to 55 million, an increase of 90%. But industrial output quadrupled during this period, because the average industrial worker turned out twice as much physical product in 1940 as in 1900. The major reason for the increase in his productivity was the rising real investment in industry and the growth of the use of machinery, equipment, and fixed capital in production. Investment in manufacturing industry appeared to be about three times as large per worker in 1940 as it was in 1900. During this same 40 years, real wages of workers in American manufacturing industry nearly doubled, indicating that technological gains were passed on mainly to the worker. Even more startling is the fact that this great increase in output was accompanied by a fall of one-third in the average hours worked per week in manufacturing, industry. The average was about 60 hours in 1900 and about 40 hours in 1940.

During the 10 years that have elapsed since 1940, the increase in the physical output of our economy, and still more in its dollar value, has been spectacular. The Federal Reserve Index of Industrial production, based on the average of 1935-39, stood at 125 during 1940 and averaged 176 during 1949—an increase of more than 40% during the most recent decade, or an annual average increase of 4%. The best available evidence shows that this increasing production has been very widely distributed throughout the economy. The real income of the average family is more than one-third higher today than it was 10 years ago.

An economy made up mainly of private enterprises is clearly one in which evidences of growth will be found in the individual firms composing that economy. The growth in the physical size, as well as in the dollar value of assets, possessed by vast numbers of established American business enterprises has been enormous during the present century. This growth has continued at an accelerated pace during the last decade of war and postwar readjustment. Because investors make their commitments in the securities of individual firms, they should pay some attention to the change in the net worth of American businesses. The net worth of American manufacturing corporations (the book value of common and preferred stock equities) stood at $42,500 million at the beginning of 1940. By the beginning of 1950 this figure had risen to $89,600 million, reflecting an increase of $47,100 million or 111% in the number of dollars of investment standing behind the equity shares of American manufacturing enterprises.

What are the prospects for the continuance of growth of the economy and of individual business firms? The prospects appear to me to be reasonably good, provided that government policies, particularly tax policies, leave adequate incentives and opportunities for business investment, and that sufficient savings will be available to finance such investments. The Council of Economic Advisers to the President has placed the "target" for growth in physical output at between 2½ and 3% per annum in the future. Studies of the Committee for Economic Development indicate that this target is well within the capacity of the economy, assuming favorable conditions to risk-taking, and avoidance of a world-wide war. It is likely that American consumers will continue to display a high propensity to consume, partly because of strong demands for goods both old and new, partly because of a more equalitarian distribution of income, and partly because of their large holdings of liquid assets. Elsewhere, I have estimated that, on these favorable assumptions, non-financial business corporations might be expected to have an annual average increase of between $11 billion and $16 billion in their total assets.[1]

What are the implications of further growth for personal investment policy? One point needs consideration at this time. This is the question whether large business enterprises will be permitted to grow larger, and whether or not the disintegration of many corporate giants now sought in a number of antitrust suits will actually take place. Without attempting to deal with the exceedingly complex problems posed by current legal attacks on big enterprises, I shall venture the opinion that further investigation and reflection will reveal that the alleged evils of "bigness" have been grossly exaggerated and that the great majority of large corporations will be adjudged innocent of the antisocial actions and consequences attributed to them. I should discount very heavily the possibility that the growth of large and successful enterprises will, in fact, be impeded significantly by antitrust action, or that investors in their securities will suffer from such actions.

It seems clear that if established business enterprises grow larger within the framework of an expanding economy, that the values of their securities, including both debt obligations and ownership shares, will generally continue to be well sustained. However, the real problems of investment lie in the differentiation of industries and of individual firms, according to the long-term economic forces that bear upon their success and their individual capacities to meet the challenge of vigorous competition. Let there be no mistake. Competition is intense and vital in modifying the conduct of even the largest business corporations. Competition offers a daily challenge to the capacities of their managements. No enterprise — however large—holds any inherent right to economic immortality, whatever may be the duration of its charter.

The Relative Growth of Government

Expansion of the role of government in the economy is one long-term tendency that is quite obvious to every adult American. Government has become an increasingly important agency for appropriating income through taxation and for spending on national defense, public works, and other governmental services. One simple measure of the rise in the role of government may be cited: In 1900 only 5% of the national income was represented by tax payments of various kinds—Federal, state, and local. Today, the figure is close to 30%. Great as has been the growth of the American economy during the present century, government has grown about six times as fast. It is important to notice, however, that the relative growth of government has not been even and steady through time. Its growth has spurted during periods of war and deep recession. Taken by itself, this phenomenon would suggest that if the United States is successful in avoiding war and deep recession in the future, government may not grow at so fast a pace as it has in the past. Another notable fact is that, at least to the present time, the relatively rapid growth of government has not been inconsistent with a very satisfactory rate of growth in the private sector of the economy.

In future years will government continue to encroach upon spheres of activity formerly left to private enterprise? Many observers, contemplating the rapid relative expansion of American government and world-wide tendencies toward the socialization of economic activity, arrive at a conclusion that America is undergoing a kind of "creeping socialism" and is evolving into a "planned economy." I do not share these views. Assuming again that our nation is able to avoid all-out war or deep depression, I am inclined to the view that the role of government as a producer of services will not rise rapidly. During the past two decades the United States, in common with most of the industrially-advanced nations, has been passing through a period of rising collectivistic activity. There is some evidence that this tendency has about reached its apex, and that we may expect some retraction in the future. It is significant that, in Italy and Turkey, industries formerly operated by the State are being returned to private management, and that in some of the less advanced nations in Latin America and elsewhere, private initiative is being increasingly relied upon to finance and operate programs of economic development. Experience has shown that over a wide sphere of economic activity, private enterprise can operate with much greater flexibility, efficiency, and responsiveness to the needs of the people than a governmental agency ever can. The "invisible hand" referred to by Adam Smith two centuries ago is slowly being rediscovered as a source of public welfare.

Increasingly, the American public will come to see that the proper role of government is neither one of *laissez faire* nor one of industrial manager, but one of providing an environment in which individual businessmen may plan, invest, and manage economic resources under conditions of reasonable stability and high incentives. The decentralized planning and decision-making that is characteristic of a competitive private enterprise economy will produce much better decisions than could any government central planning bureau. Through wise taxing, expenditure, and debt management policy, government can contribute to the maintenance of high employment and economic progress. Government must plan the environment, leaving tens of thousands of individual business managers to plan the operations conducted within that environment.

What are the implications of these views regarding the continuance of the trends in the role of government for investment? One rather clear implication is that investors in the securities of American business enterprises are unlikely, in contrast to British investors, to be obliged to exchange their corporate stocks and bonds for government bonds as a consequence of the nationalization of industries. Another implication is that, as the United States develops its role as a world investor, American investors will have to be increasingly aware of and informed about economic conditions

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*An address by Dr. Jacoby at the Western Regional Trust Conference of the American Bankers Association, Los Angeles, Calif., Oct. 19, 1950.

1 See *The Journal of Finance*, March, 1949, page 55.

Profit Sharing for Pensions

By ROGER W. BABSON

Advising study of profit sharing as substitute for pensions, particularly for small businesses, Mr. Babson holds profit sharing is real manifestation of the Golden Rule in business, but warns real test of it is during periods of decline in profits.

If an employee, are you looking for an adequate reward for your individual initiative? If an employer, do you want to increase employee co-operation and at the same time have an effective weapon against unwise welfare-isms? In either case, study profit sharing.

Roger W. Babson

We read lots in our papers about what is wrong with management. Seldom, however, do we read about what is right with management, primarily because management remains so unvocal. Management has a great story if it would only tell it!

There are today hundreds of companies across the country with profit-sharing plans for wages. Their records indicate that companies with the profit-sharing philosophy generally do not have strikes. Rather, they are noted for their good morale, high production record and greater profits. Too often, however, they are protected by patents or "good-will" which give them a special advantage.

Small Business and Profit Sharing

With continually increasing wages the small business is especially vulnerable in hard times with the average pension plan. In general, pension plans are not flexible enough for small business because management must continue to pay whether times are good or bad. Further, there is, unhappily, little evidence that employees with guaranteed pensions are any more productive than employees without pensions.

Uninterrupted production is especially important to the small business owner, and such an owner can well consider profit sharing for wages. This gives the employee one of the best incentives to produce, because the employee can readily see that greater production in the plant means more cash in his pay envelope as well as a good financial anchor in old age. Greater production necessitates greater teamwork not only with fellow workers; it brings about closer cooperation with management.

Profit Sharing vs. Pensions

I, however, wish to especially recommend profit sharing for pension plans. Profit sharing offers small business one of the soundest ways possible to finance pensions. It takes much of the burden of the employer-paid-pension from the shoulders of the small businessman. He shares his profits only when the employee has helped create those profits through high production. Employees like it too because the bigger the melon they create, the bigger the pension and the wage.

The plan would be to put all this profit-sharing money into a pension reserve to which the employer would add a certain proportion. But to make it a success each employees' pension would probably need be different, depending upon the individual's own productivity. Such a plan can, however, be applied only to a small business and where labor unions do not control.

Successful Companies

Most profit-sharing plans are for wages only, are not dependent on the productivity of the workers, but depend mainly on the ability and generosity of the management. Lincoln Electric of Cleveland is one of the most generous profit-sharing companies. Last year Lincoln shared profits equaling 117% of the employees' salaries, or an average of about $7,200 per worker, including wages. Among other successful "profit-sharing" companies are American Velvet Company, Jewell Tea Co., Proctor and Gamble, Avondale Mills, S. C. Johnson & Co., Eastman Kodak, Sears Roebuck, The Falk Corp., W. A. Sheaffer Pen Co., and the Grand Central Garage of Los Angeles.

Profit sharing is a real manifestation of the Golden Rule at work in business. If you are the owner of a small business casting about for ideas to increase your employee efficiency, cut labor turnover, reduce absenteeism, and build a greater sense of security for your workers, profit sharing may be the answer. If interested, you can write the Council of Profit Sharing Industries, Akron, Ohio. They will try to tell you how it can be done. I, however, must remind you that most of the above illustrations have used wage profit sharing only during periods of prosperity and increasing profits. The real test will come when earnings decline and when there will be no profits. Hence, I am now recommending profit sharing only for pensions.

Niagara Mohawk Power 2⅞% Bds. Offered by Morgan Stanley Group

Morgan Stanley & Co. headed 18 investment banking firms which on Nov. 1 offered $40,000,000 Niagara Mohawk Power Corp. 2⅞% general mortgage bonds due Oct. 1, 1980 at 101¼ and accrued interest to yield approximately 2.81%. The bonds are dated Oct. 1, 1950, and were awarded to the group at competitive sale on Oct. 31, on a bid of 100.631.

Proceeds from the sale of the bonds, together with other funds of the company, will be used to repay $20,000,000 of bank loans obtained during 1950 in connection with the company's construction program; to finance in part the company's 1950-51 construction program and to redeem on or about Jan. 10, 1951, all of the $15,689,000 principal amount of Niagara Falls Power 3½% first and refunding mortgage bonds due 1966.

The bonds will be redeemable during the 12 months period ending Sept. 30, 1951 at 104¼ and at decreasing prices thereafter to 100% on and after Oct. 1, 1979. The bonds are also redeemable for the debt retirement fund initially at 101¼ and at decreasing prices thereafter to 100% on and after Oct. 1, 1979.

Niagara Mohawk Power Corp. is engaged in the electric and gas utility business in New York State and also operates in Ontario, Canada, through two electric subsidiary companies. The company's construction program is expected to require about $39,190,000 in 1950 and about $52,328,000 in 1951.

Frear Bill Defended By SEC Official

Anticipating early Congressional reconsideration of proposed legislation, Associate General Counsel Loss terms "red herring" opponents' plea for small business. Dr. Edgar Scott and A. Wilfred May also address women at New York Town Hall meeting.

"Stockholders will have even greater protection when the Frear Bill is reintroduced into Congress," Louis Loss, Associate General Counsel of the Securities and Exchange Commission, Oct. 31 said in Town Hall, New York City, in addressing the financial seminar sponsored jointly by the Town Hall Inc. and the Federation of Women Shareholders in American Business, Inc.

Louis Loss

Explaining that the bill has been only temporarily shelved because of the Korean situation, he told the several hundred men and women attending the course at Town Hall, that the bill would greatly extend the requirement of annual reports and recording of proxy solicitation by companies.

He scorned as "a red herring" the argument put forth by the opponents of the proposed legislation to the effect that it would discriminate against small business. "It doesn't make any sense for 'A' Company to be subjected to the SEC's regulations, while 'B' Company of the same size is exempted from such obligations," the official declared. He maintained that the bill is endorsed by practically all the investment associations as well as the Exchanges.

Mr. Loss, then went on to describe current protection which the Federal government gives to stockholders. He pointed out that in many cases, even now, the initial information of truthfully and accurately describing a company's offerings, must be followed by annual reports, the submission of any new literature describing the company's offerings, and the reporting to the Commission of all persons or organizations soliciting proxies for attendance at stockholders' meetings.

Dr. Edgar Scott, Governor of the Philadelphia-Baltimore Stock Exchange and author with Emily Kimbrough of the new financial book for women, "How To Lay A Nest Egg," at the same meeting described financial market places and how they work, supplementing his talk with a showing of the March of Time Stock Exchange film, "Money At Work."

A Wilfred May, Executive Editor of the "Commercial and Financial Chronicle" and formerly Special Economic Expert for the SEC, who also spoke at the seminar, said that one of the chief troubles with Wall Street is that investors fail to inform themselves sufficiently on sound investment principles, and thus tempt their brokers and advisers toward giving unsound speculative advice, against their better judgment.*

*Mr. May's complete address appears on page 5 of this issue.

* * *

The Nov. 7 session of this popular course in economics will be developed around shopping for securities and safeguarding them. The speakers will be Winthrop N. Smith, Governor of the New York Stock Exchange; Lucien O. Hooper, Chief Analyst of the W. E. Hutton & Company and columnist for "Forbes Magazine"; and Raymond Trigger, editor of "Investment Dealers Digest" and "The Investor."

Halsey, Stuart Group Offer Equip. Tr. Ctfs.

Halsey, Stuart & Co. Inc. and associates are offering $2,025,000 Peoria & Eastern Ry. 2⅞% equipment trust certificates maturing annually Nov. 15, 1951 to 1965, inclusive, at prices to yield from 1.90% to 3%. Issued under the Philadelphia Plan, the certificates are being offered subject to approval of the Interstate Commerce Commission.

The certificates are secured by seven Diesel switching locomotives and 14 Diesel road switching locomotives, estimated to cost $2,705,455.

Other members of the underwriting group are R. W. Pressprich & Co.; Otis & Co.; Freeman & Co.; and McMaster Hutchinson & Co.

Makes More Sense

In proposing a retail sales tax as an alternative to an excess profits tax for the duration of the emergency, the taxation committee of the Chamber of Commerce of the State of New York said:

"Such a graduated tax, with low rates on necessities and higher rates on designated less essential articles, would be a productive tax, easily administered. It would be the most immediately anti-inflationary tax that could be imposed.

"However, should Congress choose not to enact such a defense graduated retail sales tax, then there should be further and temporary increases in the corporate tax rate, up toward a top limit of 50%, and exemptions for personal income taxes should be lowered from $600 to $500—as in the last war—in preference to any so-called excess profits tax. Such personal and corporate tax increases would be less harmful than an excess profits tax from the viewpoints of equity, effects on the economy and inflation."

This seems to us to make much more sense than most of the politicians' cry for an excess profits tax. Is there no way of getting a hearing for common sense in Washington?

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Pennsylvania Brevities

087,796, $2,108,258 and $2.61 per share for the like 1949 period.

The company is one of the country's leading chemical products manufacturers, serving over 10,000 customers representing every major industry and located in every state as well as most of the free nations throughout the world.

The company was incorporated in Pennsylvania 100 years ago primarily to engage in the manufacture of caustic soda as a substitute for potash in home soap making. The name was chosen because there then existed no law in Pennsylvania under which a company could be chartered for the manufacture of chemicals. However, the law did permit manufacture of salt and products derived therefrom—and soda is, by one process, a direct product from salt.

* * *

P. E. Ahead of Schedule

PHILADELPHIA—In a letter to stockholders, H. P. Liversedge, Chairman of the board of Philadelphia Electric Co., states:

"The company's expansion and improvement program has been accelerated in order that major electric generating and transmitting facilities will be completed by 1953, nearly two years ahead of schedule. All of the company's services—electric power, gas and steam heating—are included in the overall program and present plans call for additional electric generating capacity of 950,000 kw, an increase of 75% since V-J Day."

Net earnings for the 12 months ended July 31, 1950, were $2.20 per share compared with $1.65 for the corresponding period in 1949. Annual dividend rate has been increased to $1.50 per share.

* * *

Cream Rises

Philadelphia Dairy Products, Inc., has declared an extra dividend of 50 cents per common share and has raised the regular quarterly rate from 25 to 50 cents. Both dividends are payable Dec. 15 to stock of record Nov. 27.

* * *

Lehigh Coal & Navigation Co.

Extending the company's unbroken dividend record to 70 consecutive years, the board of Lehigh Coal & Navigation Co. has declared a dividend of 50 cents on the common payable Dec. 11 to holders of record Nov. 6. Disbursements this year will total 80 cents per share, an increase of 30 cents over 1949 payments.

* * *

Lukens Steel Co.

Lukens Steel Co. has declared the regular quarterly dividend of 25 cents plus an extra of 15 cents, both payable Nov. 17 to stock of record Nov. 3.

Shearson, Hammill Opens Dallas Office

Opening of the ninth office in the coast-to-coast chain operated by Shearson, Hammill & Co., members of the New York Stock Exchange and other principal stock and commodity exchanges, is announced. The new office is located in Dallas, Texas, at 1800 Main Street, and offers complete brokerage, research and investment advisory services. It will be under the direction of S. E. Case, resident manager. The firm maintains two offices in New York and other offices in Chicago, New Orleans, Los Angeles, Beverly Hills and Pasadena, as well as in Montreal, Canada, and Basle, Switzerland.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

Rumors of additional mergers among New York City Banks, continue to provide special interest in selected issues of this group.

The performance of bank stocks since the outbreak of the Korean War has not been particularly impressive. Whereas most stocks have recovered the losses they sustained in the declining market immediately after June 25, bank stocks as a group are still selling below the level reached shortly before that time.

Of course it should be realized that banks generally are not dynamic performers. Two of their principal market characteristics are that in periods of rapidly rising prices they tend to lag behind the list and when prices are declining they are relatively stable. Their main attraction is the secure yield.

This does not mean that higher dividends can not be expected. Fluctuations in profits are less volatile than in manufacturing concerns with the result that changes in earnings are gradual.

Dividends of banks follow a similar pattern and once an increase in the rate is made, it is considered fairly permanent.

The prospect of higher dividend payments on corporate equities has been one of the main driving forces in the market in the last few months. Stocks have responded to changes in dividend rates and many extras have been declared. This is another reason why investors have tended to be attracted to investments other than bank shares.

In spite of these considerations, however, there are a number of bank stocks which have moved up rather spectacularly. Whereas, the list generally is about midway between the high and low range so far this year, several issues are at the highest level in a number of years.

	Current Price	Indicated Dividend	Yield	1950 Price Range High	Low
Bank of Manhattan	27	$1.40	5.19%	29⅜	25
Bank of NY & 5th Av.	320	14.00	4.38	355	308
Bankers Trust	45	2.00	4.44	49¼	44
Central Hanover	97	4.00	4.12	104½	94½
Chase National	35	1.60	4.57	39¼	34½
Chemical Bank	41	1.80	4.39	45	40
Commercial National	60¾	2.00	3.29	63	47¾
Corn Exchange	72	3.00	4.17	73¾	56¾
Empire Trust	119	3.00	2.52	128	101
First National	1,230	80.00	6.50	1,350	1,185
Guaranty Trust	282	14.00	4.96	318	278
Irving Trust	17⅞	0.90	5.03	19⅞	13⅞
Manufacturers Trust	53⅜	2.40	4.50	60⅜	52
Morgan, J. P.	237	10.00	4.22	274	237
National City	41⅜	1.80	4.35	47⅞	40
New York Trust	91½	4.00	4.37	96	85
Public National	48	2.00	4.17	50½	38
U. S. Trust	590	35.00	5.93	670	585

The foregoing table shows the current price, indicated dividend, yield, and 1950 price range. From it can be determined those major banks in the New York area which have done particularly well.

In most cases the stocks which are selling near their highs are those where there have been rumors of mergers. These include Commercial National, Corn Exchange, Empire Trust, and Public National. There have also been some of the smaller banks mentioned as candidates for merger.

There is no doubt that the fundamental economic position of New York banks is such that a further withdrawal of bank capital is desirable. It is impossible to determine the timing of the individual mergers because of the various personalities and considerations other than those of an economic nature. That mergers are possible and likely, there can be little doubt.

For this reason there could be some interesting developments for bank stockholders over the next year. As merger arrangements are a means of obtaining a consideration close to a true book value of the shares and as many bank stocks are selling below their conservative book value, the reappearance of merger rumors and their denial could cause some sharp changes in the prices of the different shares.

What Makes a Good Revenue Bond?

By DAVID M. WOOD*
Wood, King & Dawson, Municipal Bond Attorneys

Stating ample revenues and application of revenues to payment of principal and interest makes a good revenue bond, Mr. Wood points out what investor wants to know is how ample and permanent are the revenues and how they can be applied to payments of obligation. Lists as qualifications of good bond: (1) area served by utility; (2) the need for the utility; (3) the record of earnings, if an acquired utility; (4) physical condition of utility; and (5) cost and prospective net revenue, if a construction project. Stresses importance of bond indenture and enabling resolution in estimating investment qualifications.

The topic assigned to me for discussion is "What Makes a Good Revenue Bond?" The answer to that question can be given in one sentence. Ample revenues and the application of those revenues to the payment of the principal and interest of the bond is what makes a good revenue bond. What the investor really wants to know, however, is how does he go about ascertaining the existence of ample revenues and how can he satisfy himself that these revenues will be applied to the payment of the obligation. Those questions are not so easily answered. They require a study of the economic factors applicable to the project to finance which the particular bond was issued and of the mechanics provided for the operation of that project and for the application of the revenues derived from it.

David M. Wood

What Is a Revenue Bond?

But first let me say that when I speak of a revenue bond I mean a bond which is payable solely out of revenues derived from a publicly owned income-producing property. This definition excludes bonds which are also supported by revenues derived from other sources. Therefore, housing bonds, which are supported by subsidies from the State or Federal governments, or which are guaranteed by a municipal corporation, are not within the scope of this discussion, and the same is true of any bond for the payment of which taxes of any sort must be levied in the event the revenues of the project are insufficient for the payment of the obligation.

Because a true revenue bond is payable solely from the revenues of one or more income-producing properties, an investor in such a bond must satisfy himself not only as to the sufficiency of these revenues, but also that they will continue to exist during the life of the bond. This requires consideration of many things. First, he must satisfy himself that there is a genuine economic need for the project in the community. The project must not only satisfy some important desire of the public but the expense of its maintenance must not exceed the economic capacity of the people of the community. A project may be a very desirable one, but too expensive an enterprise for the inhabitants of that area, however successful such a project may be in some other locality. So perhaps, one of the first things an investor should consider is the area to be served by the project.

Area Served Is Important

The areas served by revenue bond projects vary in size, topography, population and in many other ways. These varying factors must be studied in relation to the particular project. Is the population in the service area permanent? Is it growing or declining? Is it prosperous? All of these factors are very important in determining the stability of the revenues of the project and, to some extent, determine whether the project is a real necessity for that community. A project can be a necessity for a prosperous growing community but a luxury for one of a lower economic level. The reason for the existence of the community may furnish the answer to many of these questions. A city located on an important harbor or trade intersection is likely to have a more permanent population and a more stable economy than a resort town or a mining or oil town. Regardless of the nature of the project, people must use it if it is to produce revenue and those people must be able to afford to use it if it is to be successfully operated. So one of the most important factors in determining the adequacy of the revenues of the project is the size and permanence of the population of the service area and the prosperity of that population.

The topography of the service area can be exceedingly important in the case of some projects. Compare, for instance, a toll bridge located at the only practical site for a river or other water crossing, and one which, because of the topography, can be by-passed by the traveling public. If the bridge is subject to competition, present or future, then it is necessary to estimate the effect of that competition. It is not the fact of competition which is important but the effect of the competition. For instance, the Henry Hudson Bridge, operated over the Harlem River by the Triborough Bridge Authority, is a very profitable bridge notwithstanding the fact that it competes with seven free bridges all located within a few city blocks from it. Topography can have an important bearing upon the cost of the project and the cost of maintaining it, both of which, of course, have an effect upon its net revenues. The only source of supply of water may be so distant as to make the enterprise so expensive that it would be unprofitable. The fact that the LaGuardia Airport in New York City was built upon an unstable foundation greatly increases the cost of its maintenance, which in turn decreases its net revenues. Many other illustrations could be given if time permitted but those cited are sufficient to show the importance of topography.

Even climate must be considered in some cases. A parking garage in a southern State might require no heating, which would be an item of considerable expense in the north. A toll road or airport in Florida would not be burdened with the cost of snow removal nor subjected to shut downs due to snow. In the north, snow and the losses and expenses due to it are no trifles.

Need For The Utility

Having taken into consideration all of these environmental factors and satisfied himself regarding them, the next thing for an investor to consider is whether the need for the improvement which he has found to exist will be a permanent need or, at least, one which will continue during the life of the bonds. If the project supplies a necessity such as water, gas, electric light and power, etc., there can be little doubt that the need for it will be permanent, but the need for some projects may be of short duration. The investor must examine into the causes which brought about the demand for projects of this character and ascertain whether they represent permanent conditions or temporary phenomena.

An analysis of a revenue bond project made along these lines might be called a qualitative analysis. It is very important but not conclusive. No two revenue bond projects are alike. Each must be examined in the light of all the factors applicable to that project, and the investor must attempt to resolve all of his appraisals and conclusions into precise estimates of income and expense. How does he determine what the gross revenue of a particular project will be, and how does he ascertain what will be its net revenue? That will depend to a large extent upon whether the project is an acquisition project or a construction project. An acquisition project is a proposal to issue revenue bonds to purchase or otherwise acquire an existing, privately owned revenue-producing property. A construction project is a proposal to issue such bonds to finance the construction of a new revenue-producing property.

In the case of an acquisition project there will be an historical record of earnings under private management which will afford a great amount of information upon which to forecast future operation of the property as a publicly owned utility. The profit and loss statements of past years can be analyzed and adjusted to reflect public operation. The investment bankers who purchase bonds of this type for resale to their customers employ engineers and accountants to make this analysis. They usually prepare detailed statements of the results of their examination of past operations of the property and forecasts of the results of future operation of the property as a publicly owned utility. The reports of these technicians are made available to the investing public and, if they are properly prepared, give all the information an investor can reasonably require to satisfy himself as to the adequacy of the revenues of the project and as to its physical condition. But the investor should bear in mind that the value of these reports depends upon the ability of the men who made them, so he should give careful consideration to the professional reputation of these experts. The work these men do is not routine. In making their reports they frequently eliminate items of cost of operation which, in their opinion, will not accrue under public ownership and, conversely, often recommend expenditures which were not made by the private operators. Regardless of the results of the past, their forecasts of the future are merely opinions, the value of which depends upon their skill and experience in that type of business. The investor risks his capital upon the opinions of these accountants and engineers so it behooves him to know who they

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*An address by Mr. Wood delivered at 33rd Annual Meeting of the National Association of Securities Administrators, Detroit, Mich., Oct. 9, 1950.

Corporation Financial Statements Explained

By CHARLES C. CLARKE*

Statistician, Davis, Skaggs & Co.
Member, San Francisco Stock Exchange

Upholding accuracy of independently audited financial statements, Mr. Clarke explains largely in non-technical language, the items in a corporation's balance sheet and income statements, Mr. Clarke explains, largely in non-technical language, and ways of testing book value and earning power with view to determining intrinsic values of corporation stocks.

A good many years ago, a balance sheet and an income statement could be pretty well manipulated around until it told a story that sounded just fine, but often there wasn't a word of truth in it. Some, but not all of them were of this variety, and one of the results of this fancy business was to give an over-inflated value to a common stock, followed by the inevitable distress when the bubble blew up. Then there was the period when many companies issued an Annual Statement to their stockholders containing a very minimum of information, and they seemed to have the attitude of "all right, here it is, and we defy you to find out anything from it." Fortunately, those days are over, and most corporations have long since realized that it is good business and good advertising to make their Annual Report complete, interesting and more attractive to the reader.

Nowadays, you can trust as accurate almost any balance sheet or income statement that you see. That is true because any self-respecting company in existence today has its figures audited by an independent auditor. By independent, I mean an auditing firm that has no connection whatever with the firm whose figures are under examination. They are hired for a fee to do the job. There are many auditing firms of nation-wide reputation, but whether the auditors are widely known or not, they all know that their career would be ended on the spot if they ever falsely certified a balance sheet to be correct, when they knew it was not. If you are either a preferred or common stockholder in a company, you receive each year a copy of the Annual Report of your company. That report always contains, among other things, a statement of the financial condition of your company, as well as a review of the company's earnings for the preceding 12 months. Those figures have been audited by an independent auditor, and you will also see in that report a copy of a letter from those auditors certifying to the accuracy of the figures.

In addition, there is the protection of the regulations of the Securities and Exchange Commission, as well as those of the various Stock Exchanges, if the company concerned has its stocks listed on an exchange.

Financial Statements Explained

Now, I will explain the purpose of the balance sheet and the income statement and will also try to show you their importance in first, determining the financial condition of a company, and secondly, how they can be used as a yardstick in determining an approximate price at which the stock of a company might sell.

Now, we have made up — and they really have been made up too, because they are entirely fictitious — two balance sheets and two income statements. One—the Forward Chemical Company, is in good shape and shows good earnings. The other, the Backward Chemical Company, is on the verge of bankruptcy. I am going to talk mostly about the Forward Chemical Company (the good one) and some other time, you yourselves can compare it with the Backward Chemical Company and see for yourself why one is good and the other is not.

Will you look now, please, at the balance sheet of the Forward Chemical Company. This is a considerably simplified balance sheet, but it does contain the essential data. Now a balance sheet shows the financial condition, or the soundness, of a company as of a certain date—usually the last day of the calendar year. It has nothing to do with profit and loss, and does not show income. That comes later, on the income statement. Fundamentally, a balance sheet shows two things, first the ASSETS of a company — that is, what it owns and what is owed to it—and secondly, it shows the LIABILITIES—what the company owes to others, plus the total par value of its stock and the surplus. I'll explain that word "surplus" in a few minutes, but right here I should like to explain that par value is simply the stated value of the stock as carried on the balance sheet of a company, and it has nothing whatever to do with the market price of a stock.

A balance sheet doesn't mean much until we break it down to see what sort of a story it tells. So now we will pick out the more significant items of the Forward Chemical Company balance sheet, starting with the assets.

The CASH item is obvious. It would also include any government bonds that the company might own, since they can always be turned into cash on a day's notice. The ACCOUNTS RECEIVABLE simply represent bills outstanding not yet paid to the company. If this were the statement of a department store, such as the Emporium, Accounts Receivable would be charge accounts not yet settled by the store's customers. INVENTORIES represent raw materials, goods in process of manufacture, and stocks of finished goods on hand but not yet sold. That figure of $3 million that we have used for the value of inventories represents either the cost of the items that make up the inventory, or the market value, whichever is lower. There are other methods of pricing the value of inventories, but this method of taking the lower of either cost or market value is the most common.

The significance of inventory valuation is that, under stress of falling prices for a company's product, naturally the value of the inventory becomes less, and therefore the assets of that company decline. Of course, it works the other way, too, when we have rising prices.

These three items — cash, accounts receivable, and inventories —when added together, make up CURRENT ASSETS, an important figure, as you will see in a moment. It's called CURRENT assets because those assets could, if necessary, be turned into cash relatively quickly.

FIXED ASSETS of property and equipment are usually taken at cost. DEPRECIATION is designed so that enough money will be put aside each year to replace the property and equipment when it wears out. A simple example of how depreciation works might be in the case of a typewriter that cost $150 new. If the useful life of that typewriter is three years, then the company owning that typewriter would set aside each year $50 for three successive years, so that when that typewriter is ready for the junkpile, three years later, $150 is on hand for the purchase of a new one.

GOODWILL is intangible. Some times a company with a large research organization, which is constantly developing new products, carries the patent value of those new products as goodwill. The du Pont Chemical Company, for instance, considers its goodwill to be worth $40 million. On the other hand, Union Carbide and Carbon Company, another big chemical corporation, figures their goodwill at $1.00, so there is no real yardstick of a proper valuation of this item. Certainly the trade name "Ivory Soap" is of great value and goodwill, yet Procter and Gamble Company, makers of Ivory soap being on the ultra-conservative side, also carry their goodwill at $1.00.

So much for the asset side. Now look at the right hand side under **Liabilities**. I know that some of the items under this heading do not sound like a liability in the sense of a burden or debt, but from an accountant's point of view, they are called liabilities.

Under current liabilities are included all payments or bills that the company must meet within one year's time. ACCOUNTS PAYABLE are just the reverse of the accounts receivable under assets. ACCRUED TAXES do not mean unpaid tax bills, but it is the lump sum of all the taxes that the company knows it will have to pay within a year. Just as we all know that next March 15, we are going to have to settle up with the Federal Income Tax Collector on income received in 1950—and the real estate tax collector comes in here too.

The $300,000 bank loan completes the CURRENT LIABILITIES. Next we have $1¾ million of 4% mortgage bonds outstanding. Remember, a bond is a loan that must be repaid.

Then the next figure of $5 million represents the total par value of the common stock, that is, 500,000 shares times the par value of $10 per share. If the Forward Chemical Company had any preferred stock, that would be entered here, together with the common.

Under SURPLUS, the word "CAPITAL," or "CAPITAL SURPLUS," as it is generally called, takes a little explaining. It represents the amount of money, over and above the par value of the company's stock, that the company received for its stock when it was originally issued. In this particular case, the company received an extra $500,000 or $1.00 per share over the par value of $10 per share. Thus we see that the original price received by the company for its common stock was $11.00 per share. Remember, we pointed out a few minutes ago that par value has very little to do with market value.

EARNED SURPLUS is the company's savings account. It represents the amount of income that has come from earnings, but not paid out in dividends. When we get to the income statement, you will see that it is the practice of a company not to pay out in dividends its entire earnings each year, but to retain part of that income. That retained part is put back into the business, and becomes the item called earned surplus.

Meaning of Working Capital

Now that we have all the figures, just what do they mean? The first thing to examine is something called WORKING CAPITAL, which is the difference be-

Continued on page 36

*A lecture by Mr. Clarke, one of a series sponsored by the San Francisco Stock Exchange and the Public School System of San Francisco, San Francisco, Cal., Oct. 18, 1950.

Canadian Securities

By WILLIAM J. McKAY

Two highly important long-range Canadian economic policy objectives have now been realized. In the first place the Dominion has broken loose from the strait-jacket of an artificial fixed parity of exchange. Secondly, the signing this week of the U. S.-Canadian Defense Pooling Agreement constitutes perhaps the greatest achievement of the Dominion's postwar economic policy. In a new but more permanent form the wartime Hyde Park Arrangement, the cornerstone of Canada's wartime economic structure, has been successfully revived. During the war it can be said without exaggeration, that the operation of the informal agreement decided upon by the President of the United States and the Prime Minister of Canada largely determined the spectacular magnitude of the Canadian war effort.

The new arrangement provides for the complete integration of the resources and skills of the two countries as a common defense measure against aggression. This historic agreement establishes U. S.-Canadian coordination with regard to the following principles:

(1) Removal as far as possible of all barriers that impede the free flow of arms and equipment.

(2) A coordinated program to achieve an optimum production of goods essential for common defense.

(3) The institution of coordinated controls over the distribution of scarce raw materials and supplies.

(4) Any controls established to be mutually consistent in their objectives. Consultations to be held whenever one country institutes controls which may affect the other.

(5) Technical knowledge and productive skills to be freely exchanged where feasible.

(6) If implementation of the agreement causes financial or foreign exchange problems, these will be the basis for consultation by appropriate agencies of the two governments.

Although the agreement will be subject to approval by Congress and the Canadian Parliament there is every reason to suppose that this remarkable step, designed to harness the resources of North America for the defense of the free world, will meet with overwhelming approbation. There is also little doubt that following the formal ratification of the pact the objectives of the program will be vigorously pursued. Many major Canadian projects that normally would be beyond the range of early practical achievement will be put into operation with a minimum of delay.

The way is now cleared for example for a U.S.-Canadian agreement to undertake the construction of the St. Lawrence Seaway, which surely constitutes a defense measure of the highest order. There is also the long discussed proposal to establish a railroad link through Canada to Alaska, which is clearly essential to the defense of this isolated U. S. outpost. Similarly, accelerated development of the vast Quebec-Labrador iron ore deposits, the oil and coal resources of Alberta, and the Dominion's tremendous aluminum production potential would come within the scope of the new agreement. These outstanding possibilities as well as others that will doubtlessly receive serious consideration clearly suggest still another phase of dynamic Canadian economic expansion.

Even before the effects of the new agreement have commenced to register their impact the U. S.-Canadian trade balance has already undergone a remarkable change. According to the September figures Canadian exports to this country during the month rose to the imposing total of $195 million, which represents an increase of $60 million in comparison with the results of the same period a year ago. The favorable balance of exports over imports reduced the deficit in trade with this country for the first nine months to $73 million which compares with deficits in the past few years of about $500 million.

It would be reasonable to suppose, therefore, that an historic record in U. S.-Canadian trade will shortly be established. With a logical development of events it is likely that Canada's hitherto chronic deficit in trade with her great southern neighbor will be turned into a balance in favor of the Dominion. This is all the more probable in view of the fact that whereas the impact of the rearmament effort will fall on a U. S. economy already fully extended, the effect in the Canadian case will be an accelerated exploitation of the Dominion's enormous wealth of virgin natural resources.

During the week there was an almost complete lack of activity in the external section of the bond market, but U. S. demand for the Dominion internals continued to exceed the volume of liquidation for profit-taking purposes. Trading in Canadian dollars was still on a large scale and persistent demand drove the rate above the 5% level which appeared at one time to be a temporary stopping point. It now remains to be seen whether the rate will be permitted to attain its logical level in the neighborhood of parity with the U. S. dollar. The corporation-arbitrage rate was also stronger at 8% discount. Stocks rallied after the drastic decline caused by the relapse in New York. The base-metals were especially resilient and at one time broke through their peak level of the year. The industrials also rallied well following the break but the Western oils showed less recuperative power. The golds were adversely affected by the announcement of the revision of the Emergency Gold Mining Assistance Act but finally staged a mild recovery.

Halsey, Stuart Group Offers Milwaukee Gas Light Co. Debentures

Halsey, Stuart & Co. Inc. and associates on Oct. 31 publicly offered $6,000,000 Milwaukee Gas Light Co. 3⅜% sinking fund debentures, due Nov. 1, 1970, at 101⅜% and accrued interest. The group won award of the debentures at competitive sale on Oct. 30 on a bid of 100.381%.

Proceeds from the sale of the debentures and $27,000,00 of first mortgage bonds, together with a minimum of $3,000,000 to be received from the prior sale of additional shares of common stock, will be applied as follows: to the redemption of $13,667,350 of first mortgage bonds, 4½% series due 1967; to the payment of $4,050,000 of 2¾% and 3% serial notes maturing 1950-1952; to the payment of $6,100,000 of 2½% bank loan notes maturing April 27, 1951; to the redemption of 20,000 shares of 7% cumulative preferred stock, series A; and the balance will be used to provide funds for expansion of facilities and to reimburse the company's treasury for expenditures made for this purpose.

The debentures are redeemable at prices ranging from 104.38% to par. Sinking fund redemption prices run from 101.32% to par.

Milwaukee Gas Light Co. is primarily engaged in the purchase, distribution and sale of natural gas, having recently converted its system from manufactured to natural gas. It also sells gas appliances. The company's service area includes the city of Milwaukee and the contiguous suburbs of West Allis, Wauwatosa, West Milwaukee, Shorewood and Whitefish Bay, the communities of West Bend, Hartford, Port Washington, Cedarburg, Monomonee Falls and Fox Point, which are at distances of 2 to 23 miles from the city limits of Milwaukee. Population of the territory served is estimated at 815,000 and the company is without competition from other gas utilities.

Silver, Barry Admit

Norman J. Myers will become a partner in Silver, Barry & Van Raalte, 39 Broadway, New York City, members of the New York Stock Exchange. It is proposed that he act as alternate on the floor of the Stock Exchange for Robert J. Silver, partner in the firm.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government market by its ability to rally from price slumps, particularly in the eligible sector, may be giving evidence that a bottom is being made. This does not necessarily mean that there will not be further periods of price weakness but a market which does have the ability to rally independently has probably gone through the worst. The feeling that short-term rates have about completed the upward adjustment and that an increase in reserve requirements, if it should come, will not be earth shocking, seems to indicate the government market is again trodding on more solid ground.

There have been no particularly outstanding market movements recently even though the intermediate and long bank issues sagged and rallied. All of this took place within a limited range. The short rates moved slightly higher but these changes do not seem to be as disturbing as in the past. The ineligibles outside of the longest maturities gave ground under lessened official protection. The Vics continue to hold steadfast, although buying by the authorities is still limited and rather optional.

1½% Short Rate Believed Top

Many shrewd followers of the government market are of the opinion now that the rise in short-term rates is about completed. For all practical purposes the one-year rate is at the 1½% level, and there is no strong belief among the bond fraternity that a higher level is to be expected. Accordingly, it seems as though one leg of the much talked of and feared operations of the Central Banks has been pretty well taken care of. Despite the feeling that a top has been about reached in short-term rates, there are no such notions among operators in Treasury obligations that it is going to be easy to create reserve balances. It is expected the near-term rates will be kept pretty much in a state of flux by the authorities. This will make the creation of reserve balances a costly and risky operation for the deposit institutions, that must have them in order to make loans. Also a 1½% rate for one-year paper is going to take a great deal of the attractiveness away from loans, which do not have the same risklessness, as do government securities.

Increase in Reserves Anticipated

The reserve requirement "bogy-man" is still very much around to plague the money markets, but this too seems to have lost some of its effectiveness. There is no doubt that the fear of higher reserve requirements continues to act as damper on the market particularly on the intermediate and longer end of the eligible list. On the other hand, it is indicated that a great many, if not most, of the commercial banks have made quite adequate preparations for changes in reserve requirements. While there is always the possibility that an upping in reserve requirements will cause temporary unsettlement in the government market, there is a growing belief that when, as, and if it does come, the adjustment pricewise will be much less than has generally been expected.

It is becoming more evident in the financial district that many more than a few are not only in a position to meet increased reserve requirements, but are also in shape to do quite a bit of buying of the higher income eligibles, particularly if there should be important price weakness. It seems as though there are many deposit institutions, especially those that are in the larger money centers, who will be very willing to lash onto the 1956 maturities, if quotations should recede very much with an increase in reserve requirements. The smaller or more or less country banks, which have sizable savings deposits, are looking at the September 1967/72s with longing eyes and will no doubt be quite substantial buyers, if there should be a sharp price decline in this issue, because of higher reserve requirements.

Partially Exempts in Demand

Although the partially-exempts have given ground because of the same forces which brought about the downward trend in the taxables, this decline has been more limited than what took place in non-tax-sheltered issues. This is not hard to understand because higher taxes will have more than a passing effect upon commercial bank earnings. One of the ways in which taxes are hedged against by these institutions is through purchases of the partially-exempts and it is reported there has been and still is a very ready home for these securities, particularly among the largest banks. Although the longest partials are not considered among the "glamor girls" of the government market, they are being very well taken whenever they come in for sale, especially if there is size to the offerings. As has been the case all along the 1960/65s are the most sought after issue and it is indicated that trades have been made at prices which were above those quoted in the market. The 1958/63s, however, have been a close second, with volume fairly good in this obligation because a few of them have appeared for sale recently.

The near-eligible tap issues which were in great demand not so long ago are not attracting too much attention now, although there has been a minor amount of buying to average down costs. There has also been tax loss switching from these obligations into the Vics.

E. E. Mathews Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—James H. Boss is now connected with Edward E. Mathews Co., 53 State Street.

Joins H. C. Wainwright

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Joseph C. Baldwin, Jr., is now affiliated with H. C. Wainwright & Co., 60 State Street, members of the New York and Boston Stock Exchanges.

Kidder, Peabody Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Thomas E. Cannon has become affiliated with Kidder, Peabody & Co., 115 Devonshire Street.

With Hornblower Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—Paul J. Hanley has become associated with Hornblower & Weeks, 75 Federal Street.

Securities Markets

By CARL SCHICK*

Director of Public Relations, San Francisco Stock Exchange

Mr. Schick explains in non-technical language the nature and scope of securities markets. Describes functions and work of the investment banker in marketing new securities. Gives brief description of over-the-counter market and place of stock exchange in securities distribution. Cites available sources of financial information.

Securities markets are divided into two general classes, those of primary distribution and those of secondary distribution. The investment banker's role is principally one of primary distribution. As an example of his functions, suppose the owners of a closely held or family corporation that has been in business for a number of years and very successful, desire to dispose of a part or all of their holdings in the company for one of a number of reasons. An investment banker is called in for advice. After full investigation of the situation and through negotiation, a portion or all of the stock would be purchased outright from the owners. If the undertaking involves a considerable sum of money, the investment banker will form a syndicate with others in the business and the shares will be offered to the public after the necessary Federal regulations have been complied with. The selling price to the public is greater than that paid to the selling stockholders—the difference being the underwriter's compensation.

Carl Schick

The investment banker often handles new issues such as preferred stocks or bonds and additional shares for well-known corporations. The issuing company is assured of the money from the sale of the securities and the investment banker takes the risk of reselling at a somewhat higher price. Sometimes, if market conditions are unsettled, the investment banker will not purchase the entire issue, but will sell it on a "best efforts" basis; that is, he will take only the amount he can sell. The investment banker will also participate in a secondary distribution at times when large blocks of stocks held by estates or others cannot be absorbed in the regular markets.

Over-the-Counter Market

It is seldom that a security issue which has just been offered to the public is listed on a stock exchange. Such a security is usually traded in what is known as the "over-the-counter market." The over-the-counter market does not operate through a central market place, but is made up of dealers who within and between offices establish a market by individual negotiations. A dealer will often buy or sell a security in which he is particularly interested and is said to "maintain a market" in that individual security. Normally such trades are on a net basis and the dealer will buy at one price and sell at another—the difference being his compensation. The market is made up of the combined quotations of all dealers interested in the various securities. Transactions are not recorded publicly as on an exchange. Some dealers specialize in certain types of securities such as banks, insurance, rails or utilities.

After securities gain wide distribution and become more seasoned, the corporation may then seek listing on one or more of the stock exchanges.

A stock exchange is nothing more than a central market-place where securities are traded. Any one wishing to purchase a security on an exchange can bid for it through his broker, and if some one is willing to sell at that price, purchase it. Buyers and sellers from all parts of the country are brought together through their brokers. Exchange markets differ from other securities markets in that all transactions are publicly recorded on the ticker and the purchaser pays the exact purchase price plus a commission. This commission on the average is less than 1% of the total amount involved.

There are stock exchanges in most large cities throughout the nation. The New York Stock Exchange and the New York Curb Exchange are national in scope and the others are known as regional exchanges. The San Francisco Stock Exchange is the second largest of the regional exchanges, being surpassed only by the Midwest Stock Exchange in Chicago.

I am not going into detail as to Exchange operations as that will be fully covered in your visit to the Exchange trading floor.

There is a wealth of financial information available to the investor. The financial pages of metropolitan daily newspapers and the "Wall Street Journal" are excellent sources for current information. Annual reports of the corporations are valuable for studying individual companies as well as are prospectuses if one has recently been issued. Listing reports published at the time of listing and registration statements for companies listed with the Exchange will supply exhaustive information about the respective companies.

The public libraries and brokerage offices subscribe to statistical services such as Standard & Poor's, Moody's and Walker's Manual of Pacific Coast Securities. These references are most helpful in supplying authentic statistical information.

There are a number of advisory services, but these are more for the technical use of those well versed in securities. They should be used as sources of information rather than for overall investment planning.

Trade and financial magazines such as "The Commercial and Financial Chronicle," "Barron's" magazine, "Financial World," and a host of industrial trade journals are of tremendous value.

Brokers and dealers also maintain analytical departments whose resources are readily made available to clients.

In view of the wealth of financial material at hand, it certainly behooves all of us to fully investigate before we invest.

*Digest of a lecture by Mr. Schick at the third meeting of the San Francisco Stock Exchange's Lecture Series, presented in conjunction with the Adult Educational Program of the San Francisco Public School System, Oct. 18, 1950.

With Oscar F. Kraft

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Cal.—Alf I. Haugan is with Oscar F. Kraft & Co., 530 West Sixth Street.

Mobilization Impact On Steel Industry

By B. S. CHAPPLE, JR.*

Assistant Vice-President, United States Steel Corporation

In picturing conditions as affected by Korean War and future impact of mobilization on steel industry, U. S. Steel Corporation executive analyzes requirements of Defense Production Act and explains his company's plan to meet its provisions. Says unknown quantity in solving problem is still size and nature of military requirements, and expresses confidence, under tremendous power of our free enterprise system, requirements can be met and Russia's military power balanced.

I am sure you will all agree with me that business decisions must be based on a reasonable estimate of what the future will bring. Yet, there have been few times in the last decade when the businessman's problem of evaluating coming events was as complex as it is today. During the coming year, you, and certainly we in the steel industry, will be at the mercy of international political and social developments which are beyond our individual control and which we cannot foresee. Like the navigator whose ship is caught in the path of a hurricane, we do not yet know how severe the storm will be or where the winds will carry us.

B. S. Chapple, Jr.

Still, if you and I, or any other group of executives in this country, are to adequately discharge our managerial responsibilities to our respective companies, we must constantly keep an index finger on the pulse of circumstance. At the moment, this calls for an intelligent evaluation of the impact on our economy of the mobilization plans of our government.

A Picture of Present Conditions

Since there has been a great deal of speculation in recent weeks as to just what the effect of such a program may have on our economy as a whole, and more specifically on the outlook for steel, perhaps we should pause for a moment at this point in order to get more freshly in our minds a picture of conditions as they have existed in this country since June 25, the day America moved overnight from a postwar peacetime economy, hectic as it may have been, into one of outright mobilization.

First of all, our present rearmament requirements come at a time when all steel-using industries are operating in high gear. There is little or no slack in terms of unused plant capacity, idle workers, or excess materials, that can be used to fill military needs. This means, for the time being at least, the initial or most significant problem to be faced is the scheduling of what must be done first. This problem always occurs in a period such as this, when a flood of new demands flows into the marketplace.

Secondly, our economy has already experienced a considerable inflationary trend. Should the government fail in its effort to control this hazardous potential, an increase in purchasing power will pour into the marketplace at the same time that a decreasing amount of goods is available for purchase. The resulting price distortions can, over a period of time, cause radical shifts in the normal flow of goods and services.

*An address by Mr. Chapple before the 28th Annual Convention of the American Institute of Steel Construction, Houston, Texas, Oct. 26, 1950.

One of the immediate effects of the announcement of our mobilization plans was an over-stimulation of consumer—and to some extent—business buying. In July and August, consumers remembering the days of 1942, rushed to buy up available stocks of the goods which were expected to be in short supply.

To a large extent, such purchases represent buying ahead and, therefore, there are some economists who predict the effect of this circumstance will be felt in a lessening of demand at some future time.

On the other hand, there is another group of equally competent analysts who say that the inflationary pressures generated by such buying are sufficient to absorb all possible production for an indefinite period ahead.

Regardless of who may be right, this buying spree has had the effect of once again reducing inventories all along the line from the consumer back to the manufacturer. As consumer buying continues at a high rate and at the same time manufacturers attempt to rebuild depleted inventories, producers are confronted with an exaggerated concept of the size of consumer requirements. This is something that we in the steel industry saw happen back in 1937, and again in late 1948 and early 1949, when a good portion of the steel buying was for inventory stocking purposes.

Finally, manufacturers of all types of goods currently are attempting to produce at as high a rate of production as possible. This, of course, is a normal reaction to the fears of impending shortages of manpower and materials. As a result, however, the steel industry is faced once again with peak demands from each and every customer even without the stepped-up load of military requirements which is in the offing.

Question of Size and Nature of Military Requirements

The unknown quantity in the equation of the demand for and the supply of steel for the future is, of course, the size and nature of the military steel requirements. Very substantial tonnages of armament, not only are to be added to extremely heavy civilian demands, but what is more important, these military needs are to be given a position of first priority. In other words, steel defense requirements must be taken off the top of the availability pile first, and civilian requirements must be weighed against whatever is to be left.

It is to accomplish this, that the Secretary of Commerce, under direction from the President, as authorized by Congress in the Mobilization Act of 1950, has set up the National Production Authority, better known as NPA.

Most of you, of course, are familiar with the fact that numerous claimant ageneies, such as The Department of Defense, The Department of Interior, The Department of Agriculture, The Economic Cooperation Administration, The Interstate Commerce Commission and The Maritime Commission, to mention but a few, have been designated as the agencies through which defense requirements are to be channeled. Each program, originating within one of these groups, when certified as essential, is then handed to General Harrison, Administrative Head of NPA. In due course, where such a program requires steel, it is referred to Mr. McCoy, Director of the Office of Industry Operations, and subsequently, to the Director of the Steel Division, a position currently filled by David B. Carson, Vice-President, Sharon Steel Corp. Reporting to the Director at present are 14 Product Control Branch Chiefs, each assigned responsibilities involving certain grouping of specific products. As needs dictate, additional Products Chiefs may be appointed and additional product breakdowns are possible.

Serving the Director, in a consulting capacity, is the steel industry's Products Advisory Committee, made up of representatives of many of the steel producing companies in the country. Serving the Director also is the Steel Task Force, presently consisting of 22 members, each assigned by an individual steel producer, a group collectively representative of a substantial proportion of the production capacity of the total steel industry.

In principle, when a program requiring steel reaches NPA, it is the responsibility of the Director and the Product Chiefs to break it down into its component parts and identify the tonnage of each steel product required to do the job. When reconciled, it is the Steel Task Force's job to apportion the product load equitably among the Nation's steel producers in conformity with such reglations as have from time to time been issued.

The first steel requirements processed by NPA were those of the Department of Defense and the Atomic Energy Commission, in other words, the strictly military. Because these groups felt that undue delay would be occasioned by taking the time necessary to formalize individual programs at this time, a priority system was initiated whereby duly constituted representatives of the various military services might immediately certify military orders by the application of a "DO" rating. In turn, it is mandatory that such orders be promptly accepted when offered and given complete priority over non-rated orders on the mills.

To spread this load among steel producers, NPA in Order M-1, dated Oct. 12, 1950, among other things states that no steel producer, unless specifically directed by NPA, shall be required to accept rated orders for shipment in any one month in excess of certain percentages of the average monthly shipments made by him during the first eight months of this year.

For example, in carbon steel, both hot and cold rolled, sheets and strip were set at 5%. In hot rolled and cold finished bars, the figures were set at 10%. Products of more immediate interest to this audience, namely structurals, plates and piling, were set at 15%. In addition, an over-all ceiling was also established, which provides that no producer need accept carbon steel rated orders for shipment in any one month irrespective of the individuals product quotas previously set in excess of 15%. In alloy steel, this figure was pegged at 25%.

I have taken the time to outline this procedure with regard to NPA and the "DO" rated orders for a specific reason, for I am anxious to interpret for you exactly what this means in terms of non-rated tonnage you can expect to receive in the future for so-called civilian uses.

If the steel industry in the first eight months of the year were shipping an average of 600,000 tons of plates per month, then the 15% military "DO" order space reservation for carbon steel plates would equal 90,000 tons. This then leaves only 510,000 tons or 85% of normal production for civilian distribution. True, for the moment perhaps, not all of the plates that could be certified may be certified. However, let's follow the example through to see what could happen and, incidentally, while we are doing it, let's not overlook the fact that any of the Military's hundreds of procurement offices can employ the "DO" stamp at present with but limited internal coordination.

The Freight Car Program

All right, we now have 510,000 tons of plates. Here comes the first certified tonnage on a programmed basis. It's the freight car program, which requires sufficient steel to build 10,000 cars per month. In total, this program requires 316,000 tons per month, of which 192,474 are for shapes and plates—65,851 tons for shapes and the remaining 126,623 tons for plates. Now let's take 126,600 tons away from the 510,000 tons we had left a minute ago—this is an additional 21% reduction, which now leaves us but 383,400 tons, or a total reduction of 216,600 tons, or 36%. In other words, only two-thirds of the steel plates that the steel industry has heretofore been shipping for civilian purposes, are now available.

Now let's try to look a bit farther in the future. What other programs that require plates are being talked of? Well, news stories recently have mentioned pipe lines and barges for the petroleum and gas industries, not to mention certain other programs currently under consideration by several of the other claimant agencies including the Maritime Commission. Now what happens to our remaining plates?

Well, your guess is as good as mine. In fact, at this moment, your guess is as good as anyone's anywhere, including Washington.

I know some of you may well say, why not produce more plates. The steel industry has before — look at what was done during World War II. I must agree this could be done, but how let's see what this could mean. First of all, you have to have steel—so we divert it from another product. Or if we need added capacity to produce, we might convert the hot sheet mills to plate production, as was done during the last war. By this method, even though the military demand for sheets, for example, was relatively negligible, (you will remember that as far as "DO" rated orders for sheets are concerned, the tonnage for the moment is to be held to 5%) either diversion of steel or employment of new facilities for other than normal purposes indirectly could quickly bring about a serious civilian shortage problem in many additional products.

There is another facet of this problem which you should also understand fully. This has to do with how the civilian portion of the steel, that part left over, will be distributed.

Section 701 (C) of the Defense Production Act of 1950 was sponsored by Senator Wherry for the purpose of assuring each regular customer a fair share of the available civilian supply, after provision is made for defense and related requirements. The provision reads as follows:

"Whenever the President invokes the powers given him in this Act to allocate, or approve agreements allocating, any material, to an extent which the President finds will result in a significant dislocation of the normal distribution in the civilian market, he shall do so in such a manner as to make available, so far as practicable, for business and various segments thereof in the normal channel of distribution of such material, a fair share of the available civilian supply based, so far as practicable, on the share received by such business under normal conditions during a representative period preceding June 24, 1950, and having due regard to the needs of new businesses."

This means just what it says. While the President has not as yet determined that a significant dislocation of the normal distribution in the civilian market has, as yet, taken place, how long do you feel it will be before such a decision will be reached in the light of the potential I have just outlined?

U. S. Steel Allocation Policy

It is for this reason that the U. S. Steel Corporation has decided that it will be our policy to distribute the quantities of steel products which we manufacture in excess of the quantities set aside for rated "defense orders" and other orders assigned preference under governmental directives equitably among all of our regular customers, with particular attention to the requirements of small businesses, and at the same time give due regard to the essential needs of new businesses.

In order to effectuate this policy our subsidiaries have been requested to promptly adopt the following procedures which it is believed will meet the objectives of the Act:

(1) Shipments, product by product, to each customer should be tabulated for each month during the period Jan. 1 to June 30, 1950. The result should be divided by six to determine the average monthly shipment, product by product, to each such customer. The average monthly shipment is then subject to adjustment as provided in the next paragraph. The adjusted average monthly shipments will constitute the "monthly quota" of each customer.

(2) There will be instances of abnormal shipments having been made during this period due to inventory adjustments, seasonal requirements, strikes, shutdowns for retooling, conversion of plant facilities, construction work or repairs, and any one or more other factors that will have caused a customer to take larger or smaller shipments during part or all of this period than the customer would have taken under normal operating conditions. Therefore, average monthly shipments, product by product, during the six months' period should be adjusted so that the monthly quota of each customer, under this plan of distribution, will represent the average monthly shipments that would have been made if normal conditions had prevailed.

(3) Under NPA regulations a rated defense order need not be accepted later than 45 days in advance of the first day of the month during which delivery is required. Space remaining in monthly production schedules after provision has been made for filling all rated orders then becomes available for production of civilian supply. The civilian supply of each product is then to be distributed proportionally, so far as practicable, in accordance with the above stated policy, making distribution among customers according to their respective monthly quotas, as determined in conformance with the two previously read paragraphs.

Now is all this necessary—is it essential that the American people tighten their belts and face a period of austerity as prophesied by Mr. Symington and Secretary Sawyer? In my opinion, such thinking is not realistic for in spite of the American blood that has been spilt on this our newest of battlefields, Korea, as such, must be considered as only an incident in the world struggle for freedom. Our basic problem is worldwide. We are locked in a struggle between two ideologies. On the one side is Soviet-type

Communism. On the other is our democratic philosophy as symbolized by our system of free enterprise.

The problem we face under these conditions is to achieve as quickly as possible an adequate balance of military power.

Power of Free Enterprise, A Weapon

Today, we in America have the atomic bomb, certainly in greater quantities than the Russians: But more important still, we have, as our greatest weapon, the tremendous power of free enterprise, expressed very tangibly by the industrial supremacy of the American way of life.

If we apply commercial thinking to the Russian problem, we find Stalin a shrewd, competent, aggressive competitor, who, while unable to match the quality in certain of our products, nevertheless, momentarily surpasses us in certain others: namely, military manpower and quantity of military equipment.

I have heard on authority which I have no reason to doubt that in Germany today Russia maintains 70 fully-equipped combat divisions ready for immediate action; furthermore, these could be more than doubled within a matter of a month or so. By contrast, the combined allied governments have no more than 12.

In the face of this discrepancy, there are those who believe that should Russia choose, she could, in a matter of weeks, overrun all of Europe. Unquestionably, there are deterrents. Perhaps our stockpile of atomic power and our industrial strength constitute two of them. Nonetheless, Russia could move. Whether she does or not, our immediate objective must be to bring our own armed forces, as quickly as possible, to the point where we can balance this overwhelming military potential.

In view of these circumstances, it certainly takes no great insight on the part of you or me, or any industrial executive, to forecast a continuation of the circumstances we now face, for some indefinite period ahead.

Eastern Pa. Group Of IBA Elects

PHILADELPHIA, Pa. — The annual meeting of the Eastern Pennsylvania Group of the Investment Bankers Association of America was held Oct. 25 in the office of Schmidt, Poole & Co.

Gordon Crouter, of DeHaven & Townsend, Crouter & Bodine, has been elected Chairman, succeeding Walter A. Schmidt.

William K. Barclay, Jr., of Stein Bros. & Boyce, was elected Vice-Chairman; and John F. Bunn, Jr., of Bioren & Co., was elected Secretary and Treasurer, to succeed Albert R. Thayer, of Thayer, Baker and Co., who is retiring as Secretary and Treasurer, after having served in that capacity since Sept. 12, 1929.

Three members of the Executive Committee elected to three-year terms are: George W. Elkins, Jr., of Elkins, Morris & Co.; George L. Morris, of Hornblower & Weeks; William H. P. Townsend, of E. W. Clark & Co. Elected to the Executive Committee for a one-year term was Theodore C. Sheaffer, of Wurts, Dulles & Co., to fill the unexpired term of George B. Kneass, who has been elected a Governor of the Association.

These nominations were made by a committee consisting of: Norbert W. Markus, of Smith, Barney & Co., Chairman; Albert R. Thayer, of Thayer, Baker & Co.; Edward H. York, Jr., of Drexel & Co.

The Automobile Industry Outlook

By C. E. WILSON*

President, General Motors

Though admitting recent stringent credit restrictions will decrease demand for motor cars, leading executive in industry expresses view, in absence of unwarranted controls, automobile output will continue at high level. Calls for definite plans as to requirements for various military materials and as to coordination of war production and supply of consumers goods. Urges work week be increased temporarily to as much as 45 hours to prevent decrease in production of consumer goods because of armament program.

There has been a great deal of discussion in the papers about the effect on the automobile industry of our country's military requirements, even to the point of rumors that some plants would be completely shut down and placed entirely on war business. The recent stringent credit restrictions on the financing of motorcars have started another round of rumors, resulting in fear of unemployment in some quarters in the industry.

C. E. Wilson

The industry is now producing cars and trucks at a very high rate, and a reasonable projection of the business for this year would be eight million cars and trucks in the United States, and American source material for about 400,000 more in Canada, a truly tremendous business. Perhaps the production would be even a little greater if there were ample supplies of steel, tires, non-ferrous metals and other miscellaneous items. But it would not be a great deal greater, for most of the units in the industry are operating at or near their capacity, though with considerable difficulty.

The recent credit restrictions undoubtedly will decrease the demand for motor cars, especially used cars, which indirectly will affect the demand for new cars. In normal years—and it is so long since we had one that it is difficult to remember back that far—automobile sales drop off in the fall as compared to the spring, both on account of the weather and in anticipation of model changes. The shortage of cars created by the lack of production during the war has been so great that the demand has held up through the fall and winter every year since the war. Just exactly how it will work out this winter nobody knows, although I think that the industry will continue at a high level and will be able to sell most of the cars produced unless there is some artificial and unnecessary additional curtailment of the business. We are making our plans in General Motors on the assumption that there will be no such interference with the business and that whatever actions may be necessary to control inflation and promote the production of war material will be done sensibly and without causing unjustified lay-off of thousands of employees.

Fear of Unnecessary Controls

Of course, many people fear unnecessary government controls, and with some justification. There has been a tendency at times to use the threat of war or of a crisis to force controls on the people. I myself have no great confidence in any political or emotional type of planning. For example, I have not been favorably impressed by the way the rubber situation has been handled in the last two years. We have even ignored the lessons of 10 years ago.

Four Phases of Problem

There are four important parts or phases to the problem of simultaneous production for war and peace:

First: What is the necessary volume requirement for various military materials, and what and how much basic raw materials will this war production program require? What is equally important is the rate at which this material will be required. As far as I know no bill of material in total, giving the basic raw material requirements of the war production program, has ever been made up. I am sure that if this were done it would be found to be surprisingly small as compared to the nation's capacity to produce, except for a very few materials. If this information were available, it would be very helpful and possibly reduce some of the fear buying that has been going on since Korea. Without this careful appraisal of our material requirements it will be impossible to make intelligent decisions regarding necessary curtailment of civilian production. Thus civilian requirements, as well as the soundness of our whole economy, are liable to be prejudiced.

Second: What materials should be stockpiled and how much of each? Certain materials, particularly those produced outside the United States, must be stockpiled if there is danger of our sources of supply being cut off. How much of such material is needed by the military program and how much would be needed to sustain a minimum civilian requirement during a war should be determined. It is a serious matter to begin the stockpiling of as much as 10% of the current production of any commodity. If the stockpiling is as great as 25% of a commodity, it causes serious price increases and business dislocations. It would seem to me that a review of our stockpiling policies with the producers of these commodities, where they are American concerns, and with the users of these commodities, both for peace and war, would be well worth while.

Third: The actual production of both military and civilian items in a manner that will achieve the military purpose while maintaining the economy and a reasonable supply of consumer goods. I am sure that the eventual pinch on the combined program of military and civilian production will be a manpower shortage. This will become clear after inventory requirements and facilities for production are readjusted. Most people do not realize that military items were not designed for mass production to anything like the degree that is true of consumer goods. As a result, there is more labor required per pound of material used in the production of military items than on civilian goods. I was surprised to find how much more labor General Motors required to convert a ton of steel into military products during the war than to convert a ton of steel into civilian products prewar. I am sure General Motors did a reasonably efficient job of fabrication on its war contracts, but it took only about one-quarter as much steel to keep a war production worker employed as it did to keep an automobile worker employed prewar. Five years after the war, due to our improved equipment and better plants and better methods, our workers are able to convert even more tons per man year into civilian products than they did prewar.

This situation arises not only because military weapons are not designed for mass production but also because they are made of alloy steel, armor plate or other things that are hard to fabricate, or parts that must be very carefully inspected and handled, like instruments, radar equipment and even aircraft engine parts. In addition, machine tool builders have developed through the years many special high production machines for rapid fabrication of commercial material. These machine tool builders do not have the time to develop similar high-production machinery for war materials, and in many cases the volume or the changing design of the war material does not justify it anyway.

If these observations apply generally, and I am sure they do, the real shortage will be manpower, assuming we go ahead with a big military program. This shortage will be further aggravated by the number of men required for military service. This means that the only way we can have this big military program and at the same time have an ample supply of consumer goods is to work more efficiently. Since efficiency cannot be improved suddenly, we must work somewhat longer hours in the meanwhile. In other words, temporarily we should increase the average work week to as much as 45 hours in order not to decrease the amount of consumer goods available and at the same time produce the necessary military goods. When the emergency is over or our military reserves have been built up to a safe point, we can then reduce taxes and restore the 40-hour week. Just how this can be worked out on a national scale, I appreciate, is quite a problem. Nevertheless, it is the only way to avoid more inflation and at the same time have both guns and butter.

Fourth: How to avoid serious inflation due to the increased demand for goods and services superimposed on the normal peacetime economy by the military requirements? Inflation is a serious matter since it increases the cost of the military program, increases the cost of living, affects the standard of living of individuals, requires extra profits to keep businesses solvent and upsets the economy of the country. Inflation (reduced purchasing power of the dollar) depends upon money supply and the willingness to spend on the one hand, and the available goods and services to be bought on the other. The money supply depends on the fiscal policies of our Federal Government, including tax policy, foreign aid policy, tariffs and subsidies; on the credit policies of banks and finance companies; and on the savings habits of businesses and individuals. The demand for goods and services depends upon the standard of living of the people for their personal requirements, on government expenditures for material things, including stockpiling, military expenditures, and export policies, including foreign aid. The goods and services available depend on the production facilities and the efforts of the people, good crops or partial crop failures, average hours worked and number employed.

Pay-As-You-Go

Since we only paid for one-half of World War II by taxation, we have spent five years in trying to counteract the inflationary pressures created by that policy, which has decreased the purchasing power of a dollar almost 50%. Even before Korea, additional inflationary pressure was developing due to further increases in the money supply. Our public and private debt has reached an all-time high. At the end of 1949 it was $442 billion, an increase of $11.5 billion during that year. We know that it has increased further this year.

Unless we pay for our military programs and foreign aid programs as we go, serious inflationary pressures will again be generated to the detriment of all. Misuse or abuse of credit, subsidies, speculation and unbalanced budgets always have their aftermath. Temporarily they increase demand and stimulate business. Inflationary measures can be compared to narcotics. They require ever-increasing doses to produce the same result. The only way we can avoid serious inflation in the face of a military and world aid program is to recognize that as a nation we must pay as we go. Not only must the nation, including all individuals, be willing to support a tax program to pay in money for these things, but we must be willing to support a work program that will produce them.

To sum it all up, if we are to have both the military program and the world-aid program and at the same time maintain and even improve the standard of living to which Americans are accustomed, we are all going to have to work harder and more effectively.

*Part of address by Mr. Wilson before the American Society for Metals, Chicago, Ill., Oct. 26, 1950.

Magnus and Co. 25th Anniversary

CINCINNATI, Ohio—The investment firm of Magnus and Co., dealers exclusively in tax-exempt municipal bonds, are celebrating their 25th anniversary. The firm was organized Nov. 2, 1925, with offices at 501-502 Dixie Terminal Building, and they have remained in that same location for the entire time.

General partners in the firm are Herman M. Magnus and Julian A. Magnus, and both members of the firm prior to the formation of Magnus and Co. were partners in the investment firm of J. C. Mayer & Co., and between them have approximately 65 years of experience in the investment business. Participating partners in the firm of Magnus and Co. are Harry J. Lameier and Robert H. Wordeman.

Both Herman and Julian Magnus served in the armed forces during World War I, and during World War II organized and handled the sale and distribution of government bonds for all eight War Loan Drives for Division Five of Hamilton County. They are members of the Investment Bankers Association of America and charter members of the Municipal Bond Dealers Association of Cincinnati, as well as the Bankers Club of Cincinnati.

New Quarters for Walston, Hoffman & Goodwin

PHILADELPHIA, Pa. — The Philadelphia office of Walston, Hoffman & Goodwin has been moved to enlarged street level quarters at 1420 Walnut Street. The new offices, which are equipped with every modern brokerage facility, are connected with the firm's 33 other offices throughout the country. The firm are members of the New York Stock Exchange, the New York Curb Exchange, San Francisco Stock Exchange, Los Angeles Stock Exchange and the Philadelphia-Baltimore Stock Exchange.

Announcement is also made of the association with the Philadelphia office of Warren E. Swank as registered representative.

NSTA Notes

NEW ORLEANS SECURITY TRADERS' ASSOCIATION


Fred N. Ogden


Arthur J. Keenan


G. Price Crane

At the recent annual meeting of the New Orleans Security Traders' Association, the following officers were elected:

President—Fred N. Ogden.

Vice-President—Arthur J. Keenan, St. Denis J. Viller & Co.

Secretary-Treasurer—G. Price Crane.

Delegates—Wm. Perry Brown, Newman, Brown & Co., and Macrery B. Wheeler, Wheeler & Woolfolk.

Alternates—Gilbert Hattier, White, Hattier & Sanford, and Joseph H. Weil, Weil & Arnold.

GEORGE PHILLIPS WON LOW GROSS


George Phillips

George Phillips of W. D. Gradison & Co., Cincinnati, Ohio was the winner of the Low Gross in the golf tournament at the National Security Traders Association Convention with a score of 71. It was reported in error that this score was made by Joseph Phillips of Pacific Northwest Company.

SECURITIES DEALERS OF THE CAROLINAS, INC.

The Securities Dealers of the Carolinas will hold their annual meeting Oct. 26 and 27 at the Mid Pines Inn at Southern Pines, N. C., and will elect new officers at this meeting.

SECURITY TRADERS ASSOCIATION OF NEW YORK


Leslie Barbier


Harry L. Arnold


John J. Meyers, Jr.


George V. Hunt


Alfred F. Tisch

The following candidates have been nominated by the Nominating Committee of the Security Traders Association of New York for office for the year 1951:

President: Leslie Barbier, G. A. Saxton & Co., Inc.

First Vice-President: Harry L. Arnold, Paine, Webber, Jackson & Curtis.

Second Vice-President: John J. Meyers, Jr., Gordon Graves & Co.

Treasurer: George V. Hunt, Starkweather & Co.

Secretary: Alfred F. Tisch, Fitzgerald Co. Inc.

Directors (Two-Year Term): John F. McLaughlin, McLaughlin, Reuss & Co.; John S. French, A. C. Allyn & Co. Inc.; Joseph C. Eagan, Frank C. Masterson & Co., and Nathan A. Krumholz, Siegel & Co.

Trustees of Gratuity Fund (Two-Year Term): George V. Leone, Leone & Pollack, and Lawrence Wren, Allen & Co.

Nominating Committee (four members to be elected): Michael J. Heaney, Michael J. Heaney & Co.; L. A. Gibbs, Laird, Bissell & Meeds; Henry R. Schmitt, Pulis Dowling & Co.; Frank J. Orlando Goodbody & Co.; Milton Van Riper, John C. Legg & Co.; William Frankel, J. F. Reilly & Co.; Arnold J. Wechsler, Ogden, Wechsler & Co.; Carl Swenson, G. H. Walker & Co.; Edwin L. Tatro, Edwin L. Tatro Co.; Allison W. Marsland, Wood, Gundy & Co., Inc.; Salvatore J. Rappa, F. S. Moseley & Co.; James E. C. Garin, Blair, Rollins & Co., Inc.; Bert Berbank, White, Weld & Co.; Henry Kuipers, Griffin, Kuipers & Co.

National Committeemen: Samuel F. Colwell, W. E. Hutton & Co.; Irving P. Grace, W. C. Pitfield & Co., Inc.; Stanley Roggenburg, Roggenburg & Co.

National Committeemen Alternates: John J. O'Kane, Jr., John J. O'Kane, Jr. & Co.; Charles M. Zingraf, Laurence M. Marks & Co.; Henry Oetjen, McGinnis & Co.; Harold B. Smith, Pershing & Co.; Edward J. Kelly, Carl M. Loeb, Rhoades & Co.

Nominations other than those selected by the Nominating Committee can be made by a petition presented to the Secretary endorsed by 15% of the members eligible to vote for candidates. All such nominations shall close 15 days prior to the Annual Election.

STANY BOWLING LEAGUE

Bowling League standings as of Oct. 27 for the Security Traders Association of New York are as follows:

TEAM—	Won	Lost
Leone (Capt.), Krasawich, Reilly, Pollock, Gavin	12	3
Serlen (Capt.), Gersten, Gold, Krumholz, Young	10	5
Bean (Capt.), Kaiser, Crowney, Gronick, Rappa	10	5
Burian (Capt.), Manson, King, Voccoli, G. Montanye	9	6
Krisam (Capt.), Bradley, Montanye, Weisman, Gannon	9	6
H. Meyer (Capt.), Smith, Farrell, A. Frankel, La Pato	7	8
Hunter (Capt.), Lytle, Reid, Kruge, Michels	7	8
Mewing (Capt.), Klein, Flanagan, Manney, Ghegan	6	9
Kumm (Capt.), Weseman, Tisch, Strauss, Jacobs	6	9
Goodman (Capt.), Casper, Valentine, M. Meyer, H. Frankel	5	10
Greenberg (Capt.), Sullivan, Stein, Wechsler, Siegel	5	10
Donadio (Capt.), DeMaye, O'Connor, Whiting, Workmeister	4	11

The Leone (Leone & Pollock) team beat Bill Kumm's (Dunne & Co.) keglers 2 to 1 last Thursday; if Al Tisch (Fitzgerald & Co.) was there it may have been different. Kaiser (Grady, Berwald & Co.) must have gotten a shot in the arm for he came up with a 567 series.

Purchasing Agents Report New Orders Decrease

Report of Business Survey Committee, headed by Robert C. Swanton, indicates also some let-up in rising production and inflational trend.

A composite opinion of purchasing agents who comprise the National Association of Purchasing Agents' Business Survey Committee, whose Chairman is Robert C. Swanton, Director of Purchases, Winchester Repeating Arms Company, Division of Olin Industries, Inc., New Haven, Conn., indicates that in October, for the second consecutive month, there was a slowing down in the pressure to book new orders.


Robert C. Swanton

Further growth of future production commitments is reported by only 33%, compared to the top of 80% in August. 52% continued to maintain their high level of bookings, while 15% report some liquidation of the peak back-order position. New military business increased during the month, but the volume was not sufficient to cover the decline of new civilian orders.

Production trends, which usually lag behind the trend of new orders, also turned down in October. Increased production was reported by 45%, compared to 72% in August and 65% in September. In the heaviest swing since March, 10% report lower production. The trend is being influenced by seasonal conditions, shortages of materials, and a smattering of small strikes throughout the country. So far, priority orders have not had much impact on industrial schedules. They are largely concentrated in the metals and metal-working industries.

Prices continued the inflationary trend, but the force seems to be declining. Industrial inventories were down again. Employment is leveling off at the high rate of the year. Buying policy is unchanged, being scheduled to cover only planned requirements.

Purchasing agents, endeavoring to weigh the effects of continued government stock-piling of critical materials, the use of priorities and credit restrictions, are extremely cautious in forecasting conditions for the immediate future.

Commodity Prices

The price structure continues to climb, but the movement is slower. Principal increases were in manufactured goods as raw materials have not moved appreciably during October. Escalator clauses are becoming more common. No reduction is reported in the premium prices being exacted for aluminum, copper, zinc, nickel and steel. Easing in these galloping markets may be near, however, as the force of credit limitations reaches back to the point of production.

Inventories

Industrial inventories went substantially lower in October—in many instances, below safe operating stocks. Slow and extended deliveries of critical materials have put many industrial consumers on a day-to-day basis and are causing increasing maladjustments in inventories. Expediting is now a major function of purchasing. Conversion to substitutes is reported risky; for today's substitute may become tomorrow's critical item.

Employment

The overall picture shows continuing high employment. Pay rolls appear to be leveling off at the top rate of August. Skilled workers are hard to find. There is some shifting into defense factories. Some relief can be expected, as agricultural workers move into industry this winter. Where materials are available, many plants are increasing the work-week.

Buying Policy

There has been no change in buying policy during the past month. 70% are able to keep their principal buying range within 90 days. The other 30% are predominantly on a four-month schedule, with a few going on up to six months. Very few have had to reduce or cancel orders to bring inventory and commitments within the limits prescribed by NPA. Buyers are critical of suppliers who, having established voluntary allotments, are insisting on reducing them by the amount of any priority orders submitted by the purchaser.

Charles Enyart With Francis I. du Pont Co.

CHICAGO, Ill. — Francis I. du Pont & Co., members of New York and all principal security and commodity exchanges, announce that Charles Enyart, formerly President of Enyart, Van Camp & Co., has become associated with their Chicago offices, 208 South La Salle Street. Mr. Enyart's experience on La Salle Street dates back to 1910.


Charles E. Enyart

Enyart, Van Camp & Co. started business in the depression of 1932 and dissolved in 1948.

Mr. Enyart has recently been Vice-President of Thomas E. King & Co.

New York Municipal Bond-Women Elect

Cathleen K. Morin, of Smith, Barney & Co., was elected President of The Municipal Bondwomen's Club of New York, succeeding Vera M. Smith of G. H. Walker & Co., at its annual meeting.

Margaret M. O'Neill, of Adams, McEntee & Co., Inc., was elected Vice-President, succeeding Jeannette H. Wilson, of Drexel & Co.; Edith Mertens of the Mercantile-Commerce Bank & Trust Co. was elected Secretary, succeeding J. Elizabeth Dickinson of Aubrey G. Lanston & Co., Inc., and Frances W. Isengard of Harry Downs & Co., was elected Treasurer, succeeding Elaine C. Haggerty of Phelps, Fenn & Co.

Elected members of the board of governors are: Dorothy Root of F. S. Smithers & Co. and Louise Bullwinkel of Tripp & Co., Inc.

Continuing governors will be Vera M. Smith, retiring President; Gladys S. Degner of King, Quirk & Co., Inc., and Olga E. Fluck of Brown Brothers, Harriman & Co.

George Lee

George Cabot Lee died at his home at the age of 79. Prior to his retirement he was for more than 40 years a member of the Lee Higginson Corporation of Boston.

Plan for Total Peace Offensive

By WALTER P. REUTHER*
President, United Auto Workers, CIO

Asserting if we break bottlenecks of monopolies and scarcity and mobilize full productive power, American output can be increased by $30 billions, prominent labor leader offers as positive peace offensive: (1) creation of a United Nations fund for economic and social rehabilitation, and (2) organization of a People's World Assembly for Peace. Says proposed United Nations fund should be at least one-half of annual increase in value of our national production.

The struggle between freedom and tyranny—between democracy and Communism, is a struggle for men's minds, their hearts, and their loyalties. We can not win this struggle—we can not make freedom secure and build peace in the world—if we fight Communism with guns alone. We shall defeat the forces of Communist tyranny and create the world environment in which a just and lasting peace can be won only if we mobilize the full strength of the free people of the world to fight the forces of Communism on every front. This requires that American democracy fully mobilize its human and material resources—its economic and spiritual power to forge both the weapons of war to stop Communist aggression on the military front, and the tools of peace to fight poverty, hunger and injustice on the economic and social front. Communism offers the hungry and underprivileged people of the world the promise of economic security at the price of political and spiritual enslavement. We must prove that in a democratic society men can have both bread and freedom. We must answer the propaganda of the Cominfrom not by pious slogans about democracy's virtues, but by a bold program of social and economic action.

Walter P. Reuther

Communism can not match the propaganda of practical democratic performance. While building adequate military strength, the free nations of the world must launch a positive peace offensive—a total war against poverty and social injustice. Communism, in its drive for world domination, has perfected the technique of forging hunger and human desperation into weapons of aggression. This is the key to the ability of the dictators in the Kremlin to exploit and use native troops in every part of Asia. For too long we have made the tragic mistake of believing that freedom's fight in Asia could be won alone in the battlefields. It is imperative that we learn the lesson and act in the knowledge that freedom's fight must also be won in the rice fields.

Communism did not conquer China. Communism moved in to fill the vacuum created by our failure to wage war against poverty and hunger.

In this hour of challenge the American economy is freedom's greatest asset. If fully mobilized, the American economy is capable of producing both the weapons for adequate military defense and the tools for a total peace offensive.

History has made America the custodian of world freedom. I am confident that the American people are prepared to carry out the responsibilities of world leadership.

I have had an opportunity to talk to and with thousands of my fellow countrymen in all walks of life. Out of that experience I assert that the American people understand the meaning of the world challenge which confronts them, and they are ready to step up to their responsibility in meeting the challenge. If we are to discharge our world responsibility and successfully stop the forces of Communist tyranny, we must demonstrate a sense of social responsibility and develop a position of moral leadership in the world equal to our economic and military leadership.

Military leadership can be effectively demonstrated on the battlefields. Social responsibility and moral leadership must be demonstrated on the economic and social fronts in the fight against hunger, disease and injustice.

What Needs to Be Done

We know what needs to be done. Working through the United Nations, the free people of the world must pool their resources in a common effort to help people to help themselves—to increase food supplies through better agriculture, to raise living standards, to provide protection against disease and security against floods, to build hospitals, roads and power plants, and to provide educational opportunities for every child. By such a positive peace offensive, we substitute the propaganda of the deed for the propaganda of the word. Thus democracy backs up its noble promises with practical performances.

Unfortunately, there are men of little faith among us who will say that America can not and should not carry out such a positive peace offensive. These are the same little men who advocated too little and too late, both before and after Pearl Harbor. These men with little faith and less vision stubbornly cling to the economics of monopoly and scarcity, and try to block every effort to mobilize America's capacity to create abundance. The apostles of too little and too late were wrong in 1940—they are equally wrong today.

The American economy had to be taken out of the strait-jacket of economic scarcity to defeat the forces of Hitlerism. Once again it is necessary to expand America's productive capacity of steel, aluminum, power and other basic materials now in short supply, if we are to defeat the forces of Communism. We can not permit private economic decisions to jeopardize our future. If private industry will not accept its full responsibility, the government of necessity, as the agent of the people, must once again see that the job is done.

In the political field, these men of little faith specialize in telling us that we can not afford to advance the general welfare; that we can not afford to develop our natural resources through river valley programs like TVA, and that we can not share generously our economic wealth to help other free peoples to help themselves in building up their economic strength and restoring their faith in democratic government. These men of little faith are always willing to spend freely for the purely negative purposes of war and destruction, but they resist every effort to spend for the positive purposes of peace and progress. They fought to slash $500 million from the ECA appropriations and to deny the President the small funds he requested to implement his Point IV proposal.

We need to raise our sights on what we are able and willing to do to help people help themselves, and to work at the job of creating the conditions for peace throughout the world.

Must Carry Out Total Peace Offensive

Neither war nor peace are inevitable. We must be prepared for total war, while at the same time we must carry out a total peace offensive as the best hope of avoiding total war.

We must demonstrate the wisdom and courage to remove the price tag from our efforts at waging peace.

World War II, when fully paid for, will cost the American people $1,300 billion. The $45 million which President Truman requested for the first year for Point IV, and which the men of little faith fought to block, is equal to the cost of just 1 hour and 13 minutes of World War II. We could spend $45 million every year for the next 30,000 years and still spend only as much as World War II cost the American people. The entire cost of TVA to date has been less than the cost of fighting World War II for one day.

If we break the bottlenecks of monopolies and scarcity, and mobilize our full productive power, we can increase the output of the American economy by $30 billion in the next two years. By 1955 we can be producing at the annual rate of $350 billion a year in goods and service. The key to total production will be found not in speedup and inhuman exploitation of labor, but in the full utilization of our technical know-how and our material resources. If fully mobilized, the American economy is capable of producing enough to meet our defense needs while at the same time devoting billions a year to the carrying out of a positive peace offensive.

The world will judge America not by our technical progress, but rather by our ability to translate technical progress into human progress—human security—and human dignity.

America's tremendous material wealth can play a decisive part in the winning of world peace. However, if we fail to develop a moral equivalent, our great material wealth can be a liability. Our dilemma results from the serious cultural and moral lag between America's progress in the physical sciences and its lack of comparable progress in the economic and social sciences.

We know how to split the atom and produce the H bomb, but we haven't learned to feed hungry people when there is plenty to eat. We have learned to work with machines and materials, we have yet to learn how to work with men. We must convince the people of the world that we propose to share with them our material wealth, our knowledge and our skills, not to dominate or enslave their lives, but to help them help themselves in the building of a richer and freer life.

Hundreds of millions of people throughout the world are in revolt against poverty and injustice, against imperialism and colonialism. We must help these people find a democratic alternative or Communism will move in to fill the vacuum created by our failure. We must make it absolutely clear that America stands on the side of those who fight oppression and tyranny of the old colonial variety as well as the new Communist variety.

We must practice at home what we preach abroad. There is no room in America, as there is no room anywhere in the world, for second class citizenship. We must assure civil rights and equal opportunity for all of our citizens, regardless of race, creed, or color. Nowhere is the gap between American democracy's promises and its performance so great. The task of closing that gap is high on the list of democracy's unfinished business. Continued discrimination against minority groups in America provides the Communists with a psychological and propaganda weapon as devastating as the H bomb.

Furthermore, until we abolish discrimination in America, we cannot hope to provide the moral leadership in the world which we need to balance our economic, military, and political leadership.

Proposal of Positive Peace Offensive

To implement the launching of a positive peace offensive, I propose that the American people pledge by act of Congress to contribute for an indefinite period an annual contribution equal to at least one-half of the annual increase in the value of our national production, such contribution to be used to create a United Nations fund for economic and social reconstruction to be used to help people help themselves to develop their material and economic resources in the building of a better life. Other nations would be asked to make contributions according to their ability.

On acceptance of this proposal by a majority of its members, the United Nations should convene an international conference to seek universal disarmament, with full rights of inspection and other security controls in the United Nations. Aid from the economic fund shall go to those nations which agree to universal disarmament. If disarmament cannot be achieved, those nations which favor it shall bind themselves in a program of mutual defense and shall agree not to employ their armed forces except by direction of a majority vote in the General Assembly of the United Nations.

Finally, I propose that when a majority of the member nations agrees to this proposal, the United Nations shall call a Peoples World Assembly for Peace at which delegates from all walks of life in every participating nation shall make recommendations as to how the program of economic and social reconstruction shall be carried out. Annually thereafter the Peoples Assembly shall be convened to hear reports on past performance of the program and to make recommendations for future action.

I offer this proposal for the consideration of my fellow Americans. I offer it in the belief that all of us are convinced that military action alone cannot assure us that we shall achieve peace. I offer it with the conviction that human misery and injustice can be wiped out, and that the present resources and the knowledge of the world make it possible within a definite period of time for all men to be able to enjoy a full measure of economic security, human dignity, and political and spiritual freedom.

We must move in that direction with all the strength of the free world, and we must start moving now. In addition we must start now to strengthen and build through the United Nations practical and adequate machinery to meet the problems of our world community, so that as rapidly as possible the rule of law shall displace the rule of force.

Never has the future held more promise; never has the future been more pregnant with disaster. Democracy must provide man with a positive fighting faith which will inspire the will and the know-how to translate moral and ethical values into basic economic and political decisions.

We can build a better world in which men can live in peace, security and dignity. If nations can be mobilized to fight and sacrifice for the negative ends of war, then we must find a way to tap the spiritual reservoir of free men and get people marching and fighting with equal determination, for the positive ends of peace. If people will make the supreme sacrifice in war because they share a common hate and fear, we can and we must find a way to get people of good will, working and sacrificing together, to win the common hopes and aspirations they share in peace.

This positive mobilization for peace is democracy's great challenge. We in America share the major portion of world responsibility. The hour is late—we must not fail the world . . . we must not fail ourselves!

*An address by Mr. Reuther at the 19th Annual New York Herald-Tribune Forum, New York City, Oct. 24, 1950.

Business Man's Bookshelf

Accounts and Taxes — Partial record of the First Kentucky Institute on Accounting and Tax Practitioners' Forum, University of Kentucky, Lexington, Ky.—paper.

Arthritis — And the Miracle Drugs—Alton L. Blakeslee—Public Affairs Pamphlets, 22 East 38th Street, New York 16, N. Y.—paper—20c.

Dear Stockholder — Bob Heimann and Roger Fox—(80 pictures and whimsical captions that poke fun at the stuffy way corporations issue annual reports to their stockholders)—B. C. Forbes & Sons Publishing Co., Inc., 80 Fifth Avenue, New York 11, N. Y.—paper—$1.50.

Faith, Purpose and Power—James P. Warburg—Farrar, Straus and Company, Inc., 55 East 34th Street, New York 16, N. Y.—$2.00.

How to Make a Killing in Wall Street and Keep It—Augens—Box 212, Wall Street Station, New York 5, N. Y.—paper—$1.00.

Impact of Government on Real Estate Finance in the United States, The — Miles L. Colean — National Bureau of Economic Research, 1819 Broadway, New York 23, N. Y.—cloth—$2.50.

Indiana Gross Income Tax, The — Kenneth C. Back — University of Kentucky, Lexington, Ky. — paper.

Kentucky Taxes Affecting Life Insurance—Charles R. Lockyer—University of Kentucky, Lexington, Ky.—paper.

Story of the Pennsylvania Turnpike, The—Penelope Redd Jones — illustrated — P. R. and E. N. Jones, Camelot Farms, Mechanicsburg, Pa.—$1.00.

Valley Authorities — Raymond Moley—American Enterprise Association, Inc., 4 East 41st Street, New York 17, N. Y.—paper—50¢.

With Davies & Mejia

(Special to THE FINANCIAL CHRONICLE)

OAKLAND, Cal. — George Z. Melchonian is with Davies & Mejia, 1430 Franklin Street.

Mitchum, Tully Adds

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Cal.—Charles J. Briggs and Louis F. Volz have been added to the staff of Mitchum, Tully & Co., 405 Montgomery Street, members of the Los Angeles Stock Exchange.

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED
CAPITALIZATIONS

At a regular meeting of the board of directors of **The National City Bank of New York** held on Oct. 31, Louis S. Marsh was appointed an Assistant Cashier. He is in the overseas division and located at the head office of the bank.

* * *

Thomas J. McCouliff, President of **The Oneida Savings Bank, of Oneida, N. Y.,** was elected Chairman of **The Savings Banks Retirement System** at the annual meeting of the trustees of the system on Oct. 26. Mr. McCouliff, who has been Vice-Chairman since October, 1948, succeeds John S. Roberts, President of Flatbush Savings Bank, Brooklyn, N. Y., whose term of office as a trustee expired on Sept. 30. Mr. Roberts had been a trustee for six years and Chairman since October, 1948. Walter J. Hess, President of Ridgewood Savings Bank, Ridgewood, N. Y., was elected Vice-Chairman. Robert Matherson, Jr., was re-elected President of the System. William W. Sullivan, E. Henry Powell and Mary F. Stow were re-elected Treasurer, Secretary and Assistant Secretary, respectively. Edward J. Lacombe was elected Assistant Treasurer. The trustees reported the system's assets, as of Sept. 30, 1950, of \$15.3 million and participation in the system by 90 banks and 4,197 employees.

* * *

William C. Henchy of the Worth Street branch of the **Chase National Bank of New York,** James P. Mitchell of the West Coast district, Hamilton T. Slaight of the public utilities department, Joseph M. Walsh of the Rockefeller Center branch, and Crawford Wheeler, in charge of public relations, all Second Vice-Presidents of the bank, were promoted to Vice-Presidents of the Chase National at a recent meeting of the directors. At the same time the board advanced three Assistant Cashiers to the rank of Second Vice-Presidents viz.: James Bloor of real estate and mortgage loan; William R. Bottenus of the trust department, and Paul F. Clarke of public utilities. Kenneth E. Hill, engineer in the petroleum department, also was appointed a Second Vice-President, and Harold French, heretofore Assistant Manager, was promoted to Manager of Garfield branch. Other appointments to the official staff were Cornelius D. Howland, Roger M. Keefe, John B. M. Place and Douglas C. Murphy, Assistant Cashiers; John B. Dunlap, Jasper Hjelstrom, John R. Keogh, Alfred L. Lankenau, John S. O'Connell, Jack A. Peyman and James A. Ure, Assistant Managers at New York City branches, and Charles A. Ehren, William H. Lantz and James W. Watts, Assistant Managers in the foreign department.

* * *

Following a meeting of the board of directors of the **Bank of the Manhattan Company, of New York,** Lawrence C. Marshall, President, announced that Ernst C. Ophuls had been appointed a Vice-President of the bank. Mr. Ophuls joined the bank in 1946 to become its European representative with offices in London. Since 1949 he has been an Assistant Vice-President at the bank's headquarters in New York City.

* * *

Six former officers of **Brooklyn Trust Company of Brooklyn, N. Y.,** have been appointed Vice-Presidents of **Manufacturers Trust Company of New York,** Henry C. Von Elm, President, announced on Oct. 30. They were: George A. Barnewall, Everett M. Clark, Frank H. Clark, Paul F. Ely, Alfred G. Ruehle and Wallace H. Sloat. The appointments were made in consequence of the recent merger of the Brooklyn Trust into Manufacturers Trust. In accordance with the merger agreement, George V. McLaughlin, formerly President of Brooklyn Trust, was appointed Chairman of the Executive Committee of Manufacturers Trust. The merger became effective after the close of business Oct. 13, as noted in our issue of Oct. 19, page 1506.

* * *

George H. Smith has been elected Vice-President in Charge of Business Development of the **American Trust Company, of New York,** Harvey L. Schwamm, President, announced on Oct. 31. Mr. Smith was formerly associated for many years with the Bankers Trust Company.

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The dinner meeting of the 25-Year Club of the **Lincoln Savings Bank of Brooklyn** was held recently in the Hotel Granada in Brooklyn. At the meeting the following new officers for the club were elected: John A. Elbe, President; Fred Honold, Vice-President; Charles J. Kipp, Secretary-Treasurer. The club now has 40 members who have served the bank for 25 years or more. Mr. Doscher, the retiring President of the club, has served the bank for over 55 years.

* * *

A historical exhibit has been set up by the **Roosevelt Savings Bank of Brooklyn, N. Y.,** to honor Theodore Roosevelt's birthday which occurred on Oct. 27. In the exhibit are newspaper cartoons and other pictorial material published during Mr. Roosevelt's lifetime illustrating various phases of his career, including the origin and development of the Teddy Bear. Material for the exhibit was obtained from Harvard University, the Roosevelt Memorial Association, the New York Public Library and individual collectors. It will be on display during regular banking hours for approximately three weeks.

* * *

The Land Title Bank & Trust Co. of Philadelphia, has opened a new downtown office at Independence Square, 5th and Chestnut Sts. The former branch at 517 Chestnut St. has been closed since the State has acquired the property for the Independence Hall Mall project. Decor of the new quarters has been carried out in early American style to conform to the Colonial architecture of the historic buildings. which it will adjoin.

* * *

At a special meeting on Dec. 1, the stockholders of the **Farmers Deposit National Bank of Pittsburgh,** will act on a proposal to merge their institution with the **Mellon National Bank and Trust Company of Pittsburgh.** Advices appearing in the "Wall Street Journal" of Oct. 31 stated that the latter bank owns about 90% of the outstanding stock of Farmers Deposit, which is Pittsburgh's oldest bank. The same advices said:

"Announcement of the planned acquisition was made yesterday by Richard K. Mellon, Chairman of Mellon National Bank & Trust Co., and Arthur E. Braun, Chairman, and John S. Smith, President of Farmers Deposit.

"The announcement said that under National Banking Laws, a National bank is not permitted to hold the stock of another bank except at the discretion of the Comptroller of Currency. Mellon's stock interest in Farmers was obtained as a result of its merger with the Union Trust Co. of Pittsburgh, which had purchased a majority of Farmers' stock in 1919. After the merger of Mellon Bank and Union Trust in 1946, permission was granted Mellon to retain various stocks, including the stock of Farmers, for five years."

* * *

Following the recent action of the **Mercantile National Bank of Chicago** in increasing its capital from \$1,000,000 to \$1,250,000, the board of directors, at its October meeting, authorized an increase in the surplus account from \$1,000,000 to \$1,250,000. The enlarged capital of the bank, resulting from the sale of \$250,000 of new stock, became effective Oct. 13.

* * *

Bartholomew O'Toole, President of the **Pullman Trust & Savings Bank of Chicago,** has announced the election of Edwin C. Spanier as Cashier. In indicating this, the Chicago "Tribune" of Oct. 29 added that Mr. Spanier, who started with the bank as an office boy in 1918, was elected Assistant Cashier in 1944.

* * *

As of Oct. 19, the **Uptown National Bank of Chicago** has increased its capital from \$1,000,000 to \$1,250,000 through the sale of \$250,000 of new stock.

* * *

The **First National Bank at Ponca City, Okla.,** doubled its capital, effective Oct. 17, raising it from \$100,000 to \$200,000 by a stock dividend of \$100,000.

* * *

As the result of a stock dividend of \$600,000, the **First National Bank of Memphis, Tenn.,** has increased its capital from \$2,400,000 to \$3,000,000, effective Oct. 13.

* * *

Mills B. Lane, Jr., President of the **Citizens and Southern National Bank of Atlanta, Ga.,** announces that Jack F. Glenn will on Jan. 1 assume his duties in the newly-created position of Assistant President and member of the board of directors of the bank. Mr. Glenn, an investment banker with 15 years' banking experience, was a former partner of Courts & Co., investment bankers.

* * *

Forrest Farrington, of the International Banking department of the **Bank of America National Trust & Savings Association of San Francisco,** has left for Guam where he will take up duties as Assistant Manager-Operations Officer of the bank's Agana branch on the Island, Herbert Paul Von Der Porten, also of the International Banking Department, has been named Assistant Cashier and Area Administrator in the department's European group. William M. Webster, formerly of the bank's Bond Investment Department, has been appointed Assistant Trust Officer in charge of operations in the San Francisco headquarters trust department.

Dunn With du Pont Co.

(Special to The Financial Chronicle)

SAN FRANCISCO, Cal.—John F. Dunn has become associated with Francis I. du Pont & Co., 256 Montgomery Street. Mr. Dunn was formely with Davies & Mejia and prior thereto with Henry F. Swift & Co. and Walston, Hoffman & Goodwin.

Saunders, Stiver Adds

(Special to The Financial Chronicle)

CLEVELAND, Ohio—Albert S. Schulte, Jr., has joined the staff of Saunders, Stiver & Co., Terminal Tower, members of the Midwest Stock Exchange.

Offers "Road Block" Against Inflation

Dr. Walter E. Spahr, Executive Vice-President of Economists National Committee on Monetary Policy, submits a 3-point program comprising: (1) elimination of non-essential and postponable government spending; (2) restoration of gold standard currency; (3) keeping dollar at present gold value.

Fifty-one economists and monetary authorities have submitted to President Truman and Congressional leaders a 3-point program calling for a "road-block against inflation and its evils," it was announced by the Economists National Committee on Monetary Policy. Their recommendations were transmitted by Dr. Walter E. Spahr, Executive Vice-President of the Committee, who stated that the purchasing power of the United States dollar has fallen to the lowest level since 1914. Pointing up the urgency of the situation, the program recommended as follows:

Walter E. Spahr

(1) Elimination by government of all non-essential and postponable expenditures as a first step in meeting new and unexpected demands arising from the present war.

(2) Restoratioin of a currency redeemable in gold with its many benefits.

(3) Keeping the dollar valued at 1/35th of an ounce of fine gold.

"The nature of a nation's monetary standard and system is fundamental to its economic health," declare the economists. "The inflationary tendencies of this period impair our resources and weaken our nation. It is crucially important that we do not add unnecessarily to the costs of defense and further impair our national strength and resources through monetary depreciation."

"A redeemable currency should provide greater incentive for more work, more saving, for more investment. It should bring more production, more trade, and consequently more and safer prosperity. It should encourage other nations to strive for redeemable currency and the attendant benefits. Moreover, elimination of multiple dollar quotations would permit private enterprise in foreign trade to have a new lease on life," the 51 signers predicted.

Although the nation's gold supply is more than adequate to support a redeemable currency, the value of the dollar has been declining persistently, point two of the program asserts. Encouragement has been given to a type of monetary management freed from the restraints imposed by a redeemable currency. "It places the government in practically absolute control of the people's purse. It opens the way to profligate spending and waste by the government, and it invites a governmentally-managed economy," the program warns.

Urging a direct relationship between our money and gold as a convertible base, the 51 economists and monetary authorities criticized the government-held contention that a money issued against government debt is superior to money issued against gold.

"This is fallacious and dangerous. Irredeemable currency and public debt can be expanded without known limit, and purchasing power of a currency resting on government debt can be destroyed. It is an unsound currency injurious to the nation in both peace and war."

In asking that the gold value of the dollar be retained at 1/35th of an ounce of fine gold, the third point of the program declares that "a nation cannot have the benefits of a fixed monetary standard if it is altered with changes in the prices of things it is designed to measure. We do not alter the size of a bushel because the peach or potato crops are large or small. The dollar price of \$35 per fine ounce of gold is no more artificial than units of measurement such as gallon, foot or ounce."

Asserting that since 1934, foreign banks and governments have had the right to redeem dollars at the rate of \$35 for a fine ounce of gold, point three also calls for American dollar holders to receive the same benefits.

In proposing their three-point program, the authors emphatically assert that far-reaching and fundamental implications will flow from a redeemable currency, and the monetary and fiscal management which would result.

"Our people would have the benefits of an honest currency that would tend to enforce more economical and efficient government. Power to control the government's use of the public purse would be restored to them. A redeemable currency is a potent weapon against totalitarian government.

"Today there is a great need for statesmen who understand the far-reaching influences being exercised by our system of irredeemable currency, and who will assume leadership in demanding a redeemable and therefore honest currency for the people of the United States. With the advent of war and the heavy sacrifices that it involves and will involve, the need for statesmanship of high order is now more imperative than ever," the authors of the program affirm.

Laird, Bissell Absorb Day, Stoddard Firm

Laird, Bissell & Meeds, members of the New York Stock Exchange, announce that the investment business of Day, Stoddard & Williams, Inc., became a division of the firm as of Nov. 1, 1950. The New Haven, Hartford, Derby and Middleton offices of Day, Stoddard & Williams will become branch offices of Laird, Bissell & Meeds.

Marshall H. Williams and Julius G. Day will be manager and associate manager of the enlarged firm's New Haven office. All of the other officers and sales personnel of Day, Stoddard & Williams will become part of the Laird, Bissell & Meeds organization.

Joins Mitchum, Tully

(Special to The Financial Chronicle)

LOS ANGELES, Cal.—Otto E. Tappe has been added to the staff of Mitchum, Tully & Co., 650 South Spring Street.

Dean Witter Adds

(Special to The Financial Chronicle)

LOS ANGELES, Cal.—John E. Lotspiech has become affiliated with Dean Witter & Co., 632 South Spring Street.

Joins Standard Inv.

(Special to The Financial Chronicle)

PASADENA, Cal.—Marvin M. Hersh is now with Standard Investment Co. of California, 87 South Lake Avenue.

Continued from page 3

A New Look at Dow's Theory

averages established in July were penetrated. The penetration was finally accomplished on Aug. 27 when the Industrial and Rail averages simultaneously gave the earliest Dow Theory bear market signal.

Another group of Dow Theorists maintained that a bear market would be confirmed only if the dual averages broke their secondary reaction lows set up in February 1946 (when the uptrend was still definitely in effect). This penetration was accomplished by a wide margin when the drastic one-day collapse of Sept. 3, 1946 occurred. In fact, it is probably safe to assume the severity of this decline was augmented by Dow Theory selling.

The point to remember is that the time-honored methods of interpreting the movement of the averages confirmed the bear market no earlier than late August, 1946.

The price action of the average stock during the summer of 1946 suggested that the market averages were holding up quite a bit better than most individual issues. This is a normal expectation, since the popular market averages are heavily weighted with top-grade issues, which habitually resist the early stages of a bear market more successfully than the more volatile and speculative stocks. Furthermore, application of the Dow Theory principles to the price trends of individual stocks provides convincing evidence that the top for a majority of stocks from the trend standpoint was actually witnessed as early as December, 1945, rather than on May 29 when the averages recorded their ultimate peak.

The percentage of stocks which qualified as being in Dow Theory uptrends, i.e., displayed an unbroken series of higher highs and higher lows, and reached the highest level of the move in December, 1945, when it touched 93%. At this time of the remaining 7% of the issues studied, 5% displayed no discernable trend, and a mere 2% were in downtrends (the figures quoted are based on analysis of the price action of 440 leading issues).

Subsequently, the percentage of uptrend stocks gradually declined and those in a downtrend increased until, by the end of May, only 57% were still in a bull trend, 13% had established bear trends, and 30% were neutral (actually most of these latter were in transition stages between up and down trends).

Thus, while the new and final highs at this time by both the Rails and Industrials confirmed the bull market, individual stock analysis pointed to a very seriously deteriorating market condition on the basis of Dow Theory trend principles. The decline in the number of stocks in primary uptrends from 93% to 57% would probably have caused the most bullish Dow Theorist to question the value of the orthodox bull market continuation signal given at that time.

By July 31 (still three or four weeks before the conventional Dow Theory bear market signal was given) the condition of the average stock had deteriorated so greatly that only 15% of the issues analyzed were in primary uptrends; 49% were in clear-cut downtrends; and 35% revealed no definite trend.

It seems reasonable to assume, by any standard, that if the number of issues in uptrends steadily declines from a peak figure above 90% to less than 30%—or less than one-third of the issues analyzed—the market can no longer be considered in a healthy bull trend. By applying this somewhat arbitrary standard to the evidence cited, analysis of individual stock trends signaled the end of the four-year bull market about the middle of July—within six weeks of the top registered by the various market averages and six weeks before the market collapsed on Sept. 3, 1946.

The recent action of these primary trend measurements appears to be especially significant and well worth careful study. During the first six months of this year, the number of issues in Dow-Theory up and down trends almost duplicated the corresponding figures for the same interval in 1946. In the course of the long, uninterrupted bull move which commenced in June, 1949, the number of stocks in uptrends (again based on a study of the same 440 leading listed issues) reached a peak of 83% on Jan. 13, 1950. At that time, the primary trend was down for only 5%, and the remaining 12% displayed no definite trend in either direction. Thereafter, the uptrend index gradually but steadily turned down. By the third week in June, 1950, the week before the panic decline caused by the Korean War news started and a week after the bull market top was recorded on June 12, only 57% of the issues studied were still in uptrends, while the number in downtrends had increased from 5% to 15%.

It is interesting to note that this method of interpreting the trend evidence again reflected a deteriorating market position at a time when the orthodox Dow Theory provided no reason to suspect the market trend had actually long since turned down.

After receding still further under the impact of heavy selling in July the number of uptrend stocks rebounded quickly and steadily which clearly suggested the Korean break could be regarded as only an interruption in the major long-term bull trend. After a similar break in February-March, 1943 the percentage of stocks in uptrends failed to increase as the averages recovered to their final top.

The methods described have not been exhaustively tested—the records go back to 1943—and it should not be concluded the evidence will be equally clearcut at all major market turning points. Nevertheless, this method of applying the time-tested Dow Theory principles may well provide a promising new tool for dealing with market trends. It appears to offer some fundamentally sound improvements over trend interpretation methods based on market averages which have come to be generally accepted by investors over the years. In short, these studies may open up a fertile new field of study for serious students of Dow's Theory and for all investors who attempt to keep their funds invested reasonably well in tune with market trends.

With Waddell & Reed

(Special to The Financial Chronicle)

DANVILLE, Ill.—Fred E. Butcher is associated with Waddell & Reed, Inc. of Kansas City, Mo.

Hodgdon Co. Adds

(Special to The Financial Chronicle)

BOSTON, Mass. — Norton N. Keller has become affiliated with Hodgdon & Co., 10 State Street.

Joins Bache Staff

(Special to The Financial Chronicle)

BOSTON, Mass. — Bertram F. Scheffreen is now with Bache & Co., 21 Congress Street.

Public Utility Securities

By OWEN ELY

Pennsylvania Power & Light Company

Pennsylvania Power & Light serves about 21% of the State of Pennsylvania and 18% of the population (with over 500,000 customers). The area served, the Central Eastern section, is not so largely industrialized as is the western part of the state, and 32% of the state's farm income is derived in the company's area. Some 778 communities are served, the larger including Allentown, Wilkes-Barre, Harrisburg, Lancaster and Bethlehem.

About 96% of revenues are electric and 4% gas and steam heat. Of the electric revenues, 38% are residential and rural, 20% commercial, 35% industrial and 7% wholesale and miscellaneous. The company serves practically all the farmers in its area, there being no REA co-ops. Industrial business is well diversified. The company serves the best portion of the anthracite mining region, so that the trend of income from that industry is much better than the showing of the industry as a whole. Some 40% of the electricity used in the coal mines is for maintenance purposes such as dewatering.

Since the war 729 new industrial operating units have located in the area, with an aggregate annual payroll of $85 million and furnishing $2.8 million of revenue to the electric company.

For some years the company has been developing its big Sunbury plant in the Susquehanna River. The plant (located not far from one of Thomas A. Edison's first units in 1883) had its inception more than a quarter of a century ago, when the first tract of land was purchased. The first two 75,000 kw. turbines were ordered in 1945, but due to wartime delays did not get into operation until late in 1949. The company's average fuel costs per kwh. have been reduced from four mills to 3.04 mills since opening Sunbury, and the latter plant alone averages 2.33 mills.

The company's construction program during the period Jan. 1, 1946 to Aug. 31, 1950 approximated $123 million. During the period Sept. 1, 1950 to Dec. 31, 1954, the company expects to spend about $76 million. They now have $5 million cash on hand and should realize about $47 million "throw-off" cash through the end of 1954, so that they will only have to raise about $24 million through sale of securities. Some $14-15 million may be raised in the next 15 months, perhaps including some preferred and common stock. They now have 800,000 kw., and 100,000 kw. will be installed in mid-1951 and 125,000 in 1953. In that year capacity will be nearly double that of 1945.

The company is a member of the big electric power pool which includes most of the Eastern Pennsylvania, New Jersey, Delaware and Baltimore-Washington areas, and has about 10% of the nation's generating capacity. This results in a substantial operating saving and the pool currently maintains a 15% power reserve margin.

The company's capital structure has been improved in recent years as follows:

	1942 Pro Forma	September 1950
Debt	65%	61%
Preferred Stock	30	20
Common Stock Equity*	5	19
Total	100%	100%

*Includes account 100.5, which is being amortized.

The management aims to increase the common stock equity ratio steadily, reaching 25% by 1959.

Common share earnings have increased from $5.0 million in 1946 to an estimated $9.1 million in 1950. Share earnings for the 12 months ended Sept. 30 were $2.75, and President Oakes expects the company to earn about $3 for the calendar year, adjusted to a 42% tax. Even under the "worst" Federal EPT, he is confident that the $1.60 dividend rate can be maintained next year. The company might temporarily have to pay out more than 75% of earnings, but to do so can use surplus accrued since 1945 without evading charter requirements. Unrestricted surplus should equal $7 million by the end of the year.

1951 pre-tax earnings should improve over 1950, reflecting full operations of the new power unit.

The present regulatory set-up in the State of Pennsylvania is liberal. The company's estimated rate base approximates $350 million compared with $312 million book value. Allowable rates of return (based on the 1942 rate case) amount to 6% on electric plant, 6¼% on gas and 6¾% for steam. The present Commission is Republican, and while three out of the five Commissioners' terms run for four to eight years, a change in political leadership in the State might have adverse results as it did during the Earle administration. However, the company's position is strengthened by the fact that over 44% of its 70,000 stockholders live within the service area, and over ⅔ live in the state. Many of them are customers, only one in 10 holding over 100 shares.

Pennsylvania Power & Light is selling on the Stock Exchange around 25½ and is now paying at the annual rate of $1.60 to yield 6.3%. The dividend rate was increased from $1.20 to $1.60 on July 1 this year. Even after this increase, the rate reflects a payout of only about 53% assuming that the forecast of $3 for the calendar year proves correct. Range this year has been 27¼-21¾.

With Daniel F. Rice Co.

(Special to The Financial Chronicle)

MIAMI, Fla.—Walter G. Jester, Jr., has become associated with Daniel F. Rice & Co., 120 Northeast First Avenue.

Bache & Co. Adds

(Special to The Financial Chronicle)

PALM BEACH, Fla.—Harold M. Van Husen has been added to the staff of Bache & Co., 271 South County Road.

With Merrill Lynch

(Special to The Financial Chronicle)

MIAMI BEACH, Fla.—Francis M. Brady is with Merrill Lynch, Pierce, Fenner & Beane, Lincoln Bldg. He was formerly with Thomson & McKinnon.

With William S. Beeken

(Special to The Financial Chronicle)

WEST PALM BEACH, Fla. — David L. Swank, Jr. has become affiliated with William S. Beeken Co., Harvey Building.

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The Security I Like Best

been on the increase during the past 12 months, despite a substantial increase in drilling activities. The company's sole capitalization consists of 1,500,000 shares of common stock; of this Barber Oil owns about 440,000 shares.

In terms of current yield American Republics' common provides only a modest return, although higher earnings will make possible increased dividends in the future. Earnings growth during periods ahead is expected to be more fully reflected in market appreciation, with the accompanying tax advantage to investors under existing statutes.

Continued expansion of uses for petroleum is undisputed in this age of automatic machines, quite aside from military preparedness requirements. This demand, together with American Republics' oil and gas reserves, provides the hedge against currency inflation, fulfilling the investment requirements originally stated. Supplemented by the company's excellent management and extensive resources, the outlook for growth seems assured.

Central States Group Of IBA Elect

CHICAGO, Ill. — Charles R. Perrigo, Hornblower & Weeks, Chicago, was elected Chairman of the Central States Group of the Investment Bankers Association of America at the annual meeting of the group. He succeeds Hempstead Washburne, Harris, Hall & Co., Chicago. Other officers elected are: Vice-Chairman: Holden K. Farrar, Smith, Barney & Co.; Secretary-Treasurer: Lee H. Ostrander, William Blair & Co.

Charles R. Perrigo

New members of the Group Executive Committee are: William D. Kerr, Bacon, Whipple & Co., Chicago; E. Cummings Parker, Glore, Forgan & Co., Chicago; David J. Harris, Sills, Fairman & Harris, Inc., Chicago; Frank L. Reissner, Indianapolis Bond and Share Corp., Indianapolis; J. Victor Loewi, Loewi & Co., Milwaukee.

The new offers and members of the Executive Committee will take office following the annual convention of the IBA Nov. 26-Dec. 1 at Hollywood, Fla.

Pforzheimer to Admit

Richard C. Dube will acquire the New York Stock Exchange membership of Carl H. Pforzheimer, Jr., and will become a partner in the Exchange member firm of Carl H. Pforzheimer & Co., 25 Broad Street, New York City, on Nov. 9.

New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following firm changes:

Transfer of the Exchange membership of William A. Klubnik to Ernest Gottlieb will be considered by the Exchange on Nov. 9.

Elizabeth W. Hamlin retired from partnership in Hamlin & Lunt on Oct. 31.

Continued from page 9

Excess Profits Tax Is Against Public Interest

of available income, and the movement of total national income shows the scope of this increase. Prices, as indicated by the wholesale price index, rose rapidly through 1948 and they have declined since then.

In all, we have here a record of reasonably consistent good business, high level production, and a growing volume of income. The continuing large volume of consumer purchasing is in part a product of the expanding needs of a rapidly increasing population, and in part an indication that there is still an accumulation of shortages from World War II. Neither of these factors would have supported the spending, however, if the increase of income and purchasing power had not occurred. In view of the actual situation that prevailed, namely insistent demand backed by ample purchasing power, price reductions by primary producers would not in all cases have inured to the advantage of final consumers, but would have led to the expansion of black and gray markets in the distributive fields.

Increase of Corporate Profits Misunderstood—It is not surprising, nor remarkable, that corporation profits should have increased as part of the general advance of the economy. Their failure to do so would have been the basis for far more serious concern about the future. The assumption, so often made as a reason for excess profits taxation, to the effect that a large dollar total of profits is in itself evidence that profit is excessive or exorbitant is a case of looking too closely at only one of the elements in the growth of the economy. If the data in Table III were extended back into the prewar years, it would be found that all elements in the national income had experienced a substantial expansion. As this expansion occurs, the dollar volume of business sales will increase, and total profits may be expected to rise even with a constant ratio of profits to sales. For such light as may be shed on the subject, there is given in Table IV the relation of profits to sales for all manufacturing corporations since 1936.

The selection was limited to manufacturing corporations in order to obtain a consistent series from 1936. The Council of Economic Advisers has limited its comparison to this group, and their reports are the only source of such data for the years not covered in the published statistics of income. The only deduction for taxes is in the corporation income tax, which was levied, at some rate, through the period. The excess profits tax of the war years was not considered since it was not applicable throughout the period.

The relation of profit to sales before income tax may be of interest to some, but the more significant comparison is that of profit with sales after tax, since it is a fairly definite and certain fact that corporations will always be subjected to some kind of tax on income. And the important question that is presented by this overall record is whether or not the return, after ordinary income tax, during the war period was so much in excess of the return in the prewar and postwar periods as to afford a warrant for calling it an excessive return. The average percentage of profits to sales for the five prewar years 1936-1940 was 7%; for the five war years, 1941-1945, the average of profits to sales was 9.5%; and in the five postwar years, 1946-1950 (3 months) it was 6.1%. The full record for 1950 will of course modify the average for this last period.

The differential of some 2.5 percentage points between the war and the non-war periods covered in the table is the result of taking into account only the ordinary corporation income tax paid during the war years. Had there been no excess profits tax, the rate of the corporate income tax would undoubtedly have been higher and the result could very well have been to reduce the sales-profit ratio of the war years below the range of the non-war years.

The steadiness of the ratio in the general range of 6 to 7% in the prewar and postwar periods is striking. This outcome is to some extent haphazard rather than planned, because of the substantial difference in the rates of corporation income tax before and after the war. It does suggest, however, that business pricing and selling policies have been fairly successful in holding the line of the sales-profit ratio despite rising costs and higher taxes. A definite inference is provided that the higher taxes have been passed along, for otherwise the tax increase would have been registered as a decline of this ratio.

The conclusion appears warranted from the above record that there was no such wide difference between the relation of profits to sales in the prewar and postwar periods and the relation that prevailed during the war years to justify as defective a taxing instrument as an excess profits tax. Every revenue purpose sought through this tax could have been better achieved by other methods of corporate taxation, and the great volume of complaints, litigation, and expense created by this tax could have been avoided. There is no question, here, of whether or not the corporation taxes should have been increased, for this is both logical and necessary in a period when the government's needs are greater and taxes are being increased at other points.

Inflation Profits Unreal — In view of the actual course of prices during and after the war, there is one respect in which the dollar amount of all business profits is unreal. This is in the fact that as prices rise, the replacement cost of capital equipment is in excess of the amounts which are currently allowed as depreciation charges against earnings in determining tax liability. Adjustments for price level changes were not considered during the war, and at that time there were some who forecast depression, unemployment and price decline as soon as the shooting ended. None of these things happened. Instead, prices continued to advance, though with some breaks and irregularities. The national income accounts contain an adjustment against corporate profits for changes in inventory valuation, but none for the difference between original cost and replacement cost in the category of capital assets other than inventory. Some idea of the magnitudes involved may be gained, however, by noting the relation of the inventory adjustments to total profits. This is shown in Table V.

In view of the immense investment by industry in depreciable assets other than inventory, it is evident that any recognition of an adjustment for their higher replacement costs during a prolonged inflation would lead to a further reduction of the real, as against the reported, profits.

This is not the place to deal with the various solutions that have been offered for the problem of depreciation and the price level. The problem itself is germane, nonetheless, to the charge that corporate profits have been so high as to warrant the imposition of a crippling, punitive excess profits tax.

Purpose and Effect of Excess Profits Taxation

This raises the issue of the purposes to be achieved through an excess profits tax. There are, evidently, only two major purposes, namely; (1) to get additional revenue, or (2) to penalize the companies that are most successful in earning profits through their capacity to produce for military or civilian needs.

Revenue Aspect of an Excess Profits Tax Greatly Exaggerated— The general belief is that an excess profits tax is necessary if a substantial increase in corporation tax revenue is required. In the popular view, this tax is the big mule that will pull the larger part of the corporate tax load. And there is an equally strong belief that without an excess profits tax the revenue collectible from corporations would be quite meager.

Both of these ideas are erroneous. The published records suggest that the excess profits tax produced the major part of the corporation tax revenue during the second world war. The same records indicate that an equivalent revenue could have been obtained in the years 1940-1945 by a flat rate of 48.4% on all corporation income. The data are given in Table VI.

The superficial impression conveyed by Table VI is that the excess profits tax accounted for almost two thirds of the total corporation tax revenue during the war years. This impression comes from the terminology and the technique employed. The real test of its net revenue advantage is in a comparison with other tax methods. For example, the rate of corporation income tax was advanced to 40% in the Revenue Act of 1942. If the only tax on corporation income through the period 1940-1945 had been a rate of 40%, it would have produced a total revenue of $52,692 million. Since the combined yield of income tax and excess profits tax in this period was $63,108 million, it follows that the bona fide net gain from excess profits tax, over what would have been collected at a flat rate of 40% on all corporation income was only $10,416 million ($63,108 million minus $52,692 million).

It is not necessary here to enter into all of the details whereby taxable excess profits net income was determined. The point is that having determined such net income, a tax was imposed on this segment of income that rose closer to complete confiscation as the war progressed. The relationship of corporation net income, adjusted excess profits net income, and excess profits tax, is shown in Table VII.

It is seen from Table VII that the adjusted excess profits net income, the base on which the excess profits tax was levied, was never as much as half of the total corporation net income. There is no evidence to show that this adjusted excess profits net income was solely or exclusively war profits, and we know, from Table II, that it was not imposed exclusively on large corporation incomes. What the record does show is that the tax absorbed an increasing percentage of such income as happened to be defined by the law as "adjusted excess profits net income" because of the tax rate increases that were made.

But Table VI contains some other facts which are illuminating. The final column of that table shows the equivalent flat rate of corporation income tax that would have been required to produce a revenue equal to the combined yield of the corporation income and excess profits taxes. The highest rate of such tax was 55% in 1943 and as an average for the entire period, a rate of 48.4% would have sufficed.

If such a result would have been obtained during the Second World War, it is reasonable to suppose that a comparable one would follow from a repetition of the experiment, assuming that anything like the same kind of excess profits tax law were to be enacted. Because of the enormous advantages from the utilization of the established corporation income base for the Bureau in administering the tax, and for the taxpayers in complying with it, there is every reason to avoid the complexities and hardships of an excess profits tax in view of the small net revenue gain that is in prospect.

Penalty Purpose of Excess Profits Taxation—The net revenue advantage from excess profits taxation over that provided by other ways of increasing the taxes to be paid by corporations is too small to make a case for this tax on revenue grounds. In fact, there is no intent to make such a case, and no desire for it. The demand for an excess profits tax does not rest on facts but on a compound of sentiment, semantics, and prejudice. Inflammatory slogans such as "Take the profits out of war," "Draft dollars along with men," "Corporation profits are already too high," have a wide appeal. They are designed to suggest the contrast between some of our people being killed in battle and others being comfortable and prosperous at home, but they make no contribution to a sound, genuinely productive tax program.

TABLE III

Pertinent Indicators of the Growth of the Economy, 1946-1950 (Six Months)

(Billions of dollars, except cols. 6 and 7)

Year—	National Income (1)	Consumer Expenditures (2)	Compensation of Employees (3)	Corporation Profits Before Tax (4)	Business and Professional Income (5)	Index of Industrial Production (6)	Index of Wholesale Prices (7)
1946	180.3	146.9	117.1	23.5	22.4	170	121.1
1947	198.7	165.6	128.0	30.5	21.3	187	152.2
1948	223.5	177.4	140.2	33.9	22.5	192	165.1
1949	216.8	178.8	140.6	27.6	20.3	176	155.0
†1950	219.1	183.4	144.4	30.1	22.3	189	153.8

Source: Midyear Report of the Council of Economic Advisers, July, 1950.
†Figures for the first six months of 1950 are preliminary estimates of annual rates.

TABLE IV

Percentage of Profits to Sales, Before and After Corporation Income Tax, 1936-1950, All Manufacturing Corporations

Year	Percentage of Profit to Sales: Before Income Tax	After Income Tax
1936	8.7	7.4
1937	8.3	7.0
1938	7.3	6.2
1939	7.2	6.9
1940	9.6	7.5
1941	12.2	9.6
1942	12.6	10.7
1943	12.5	10.8
1944	11.6	9.7
1945	8.4	7.0
1946	8.6	5.0
1947	11.0	6.7
1948	11.1	7.0
1949	9.3	5.9
1950[1]	10.1	6.2

Source: Data for years 1936 through 1945 from *Statistics of Income, Part 2*, for the respective years. Data for the years 1946 through 1950 from annual reports of the Council of Economic Advisers.
1 Annual rate in first quarter.

TABLE V

Corporation Profits and Inventory Valuation Adjustment, 1946-1950

(Billions of dollars)

Year	Corporation Profits Before Tax	Inventory Valuation Adjustment	Profits After Adjustments*
1946	$23.5	$—5.2	$18.3
1947	30.5	—5.8	24.7
1948	33.9	—2.0	31.8
1949	27.6	+2.2	29.9
1950**	30.1	—1.6	28.4

Source: Council of Economic Advisers, *op. cit.*
*Rounded figures do not add to totals.
**Preliminary estimates of annual rates in first six months.

TABLE VI

Corporate Net Income, Income Tax, and Excess Profits Tax, 1940-45

(Millions)

Year	Net Income	Income Tax	Excess Profits Tax	Total Income and Profits Tax Liability	Rate of Flat Tax to Produce Same Yield
1940	$11,203	$2,145	$374	$2,519	22.5%
1941	18,111	3,744	3,359	7,103	39.2
1942	24,052	4,338	7,852	12,190	50.8
1943	28,718	4,479	11,291	15,770	55.0
1944	27,124	4,354	10,432	14,786	54.6
1945	22,165	4,183	6,557	10,740	48.4
Totals	$131,373	$23,243	$39,865	$63,108	48.4

Source: *Preliminary Statistics of Income, 1947, Part 2, Summary Data.*

TABLE VII

Corporate Net Income, Adjusted Excess Profits Net Income and Excess Profits Tax, 1940-1945

(Millions)

Year:	Net Income	Adjusted Excess Profits Net Income	Excess Profits Tax	Percent, Tax to Adjusted Excess Profits Net Income
1940	$11,203	$912	$374	41
1941	18,111	6,335	3,359	53
1942	24,052	10,495	7,852	75
1943	28,718	14,553	11,291	77
1944	27,124	12,936	10,432	80
1945	22,165	8,368	6,557	78

Source: *Statistics of Income, Part 2*, for the several years.

Rather, they illustrate the non-fiscal attitude toward the use of the taxing power, in which the main purpose is to inflict a penalty or to exercise a control without regard to the effect of such measures upon the productive forces or upon the tax revenue which can legitimately be obtained from them without too serious impairment of their vigor. In submitting to the influence of suggestions like those set out above, the people are likely to be injuring rather than promoting the chances of their young men who must do the fighting. The fact is that fewer of our men will be killed in battle in proportion as they are provided with the best possible equipment for offense and defense, in whatever quantity may be necessary for the job. The job of industry and of those who remain at home is to produce enough so that the men in uniform can have as much as they need, when and where it is needed, and also enough more so that the people for whom these men are fighting can be safeguarded, to the extent possible, against the long-run bad effects of a severe decline of living standards. It would be pointless to force the civilian population to live in foxholes and subsist on packaged rations because the men in battle must accept these conditions. It is foolish to talk about drafting everything and everybody because the armed forces must fill their ranks by a selective service draft. The emphasis should be, instead, upon the greatest possible productive effort, the greatest possible conservation of scarce manpower and materials, and the provision of the goods required for both military and civilian use at the lowest possible cost.

Excess Profits Taxation Strangles the Economy—The necessary expansion of production cannot and will not occur without the maintenance, or even an increase, of capital investment. The tax system must be so devised, in every stage short of an all-out, last-ditch struggle for national existence, as to permit the continued growth of our productive facilities. An excess profits tax will hinder rather than promote this objective. No one knows, for certain, just how much profit can and should be taxed away during war without defeating the great national objective of maximum production at lowest cost. If the government were to be successful in taking all of the profit out of war, it would very likely be successful, to about the same degree, in taking away the incentive to conserve manpower and materials, and to get the output at the lowest cost.

The economic unsoundness of an excess profits tax is thrown into sharper focus by the prospect of a prolonged period of large military spending and partial mobilization. This tax is a method of economic strangulation. It sets arbitrary ceilings beyond which economic growth can be only slow, feeble, and haphazard. With the passage of time any base established for determining standard or normal profit would become increasingly inadequate, and eventually entirely obsolete. In its report on the 1945 bill which repealed the excess profits tax, the Senate Finance Committee said: [2]

"The primary reason for advocating the repeal of the excess profits tax as of the first of 1946 is the belief that this tax is a major obstacle in the way of reconversion and expansion of business which are essential for the attainment of a high level of employment and income. The tax takes such a large portion of corporate profits that most businesses are not willing to take the risk of expanding their business while this tax is in operation."

Among other reasons given for the repeal is the following:

"The longer the excess profits tax is retained the less the income of 1936-1939 base period is a proper measure of excessive profits. This base period will be a particularly poor measure of earnings in the postwar period when many corporations will be entering new fields of enterprise or expanding their businesses."

This reasoning is as valid today as it was in 1945. The acceptance of a static base for the measurement of normal or excess profit over an extended period would be as damaging for the future years after 1950 as the Senate Committee realized it would be for the years after 1945. A high duty of both business and political statesmanship is to cooperate in developing a system of Federal taxation which will supply the needed revenues and at the same time impose the minimum of restraint and hindrance upon the full and free development of our capacity to produce and to consume. An excess profits tax is wholly unworthy of consideration as part of such a tax system.

Excess Profits Tax Promotes Lax Procurement—A further contribution which the excess profits tax makes to unsound economic policy is in the promotion of laxness in procurement. Military purchasing, even under peace conditions, has never been characterized by a high regard for the value of money. Under the pressure of an emergency, this laxity becomes much more pronounced. Yet the lack of prudence, often reinforced by an insufficient knowledge of industrial processes and costs among military procurement officers, has been the principal cause for contract terms that would afford large profits on individual contracts. The knowledge or belief that a drastic excess profits tax might siphon off much of the extra profit too often serves as an excuse to avoid sharp, or even careful bargaining. What is not so clearly perceived is that the siphoning is also operative against cost control on the part of management, with the result that the cost of both military supplies and civilian goods is materially increased.

II

An Excess Profits Tax Is Administratively Unworkable

It was pointed out above that any definition of an excess profit, by statute, is necessarily arbitrary, and hence incapable of being adapted to the myriad conditions which arise throughout industry in the private quest for profit. It becomes necessary, if the law is to operate at all, to introduce variations and exceptions from the standard pattern. But the ramifications of variations in actual business practice and experience are so numerous that no statutory classification can possibly cover and apply to all of them. The result is, inevitably, an immense amount of complaint and litigation. There is something seriously wrong with any tax law that creates issues between the government and the taxpayers which involve years of long-drawn-out, expensive controversy. Both of the previous excess profits tax laws were prolific sources of such controversy. The Commissioner of Internal Revenue reported as follows at the end of the fiscal year 1949:

The significance of the data in this table may not be generally appreciated. It appears that during the seven-year period 1942-1949, there were 53,651 applications for relief under Section 722. The relief provisions of that section related only to excess profits returns made on the average base period income method. In these appeals the total amount of tax involved was $6,231 million, which was 15.6% of the entire collection of excess profits tax during the operation of the law through 1945. On June 30, 1949, there were still 22,281 unsettled cases involving $4,858 million of contested excess profits tax. The final closing of these cases could very well drag on for years longer, with all of the expenses and uncertainty of ultimate tax liability that are involved.

Table VIII summarizes the record of proceedings before the Excess Profits Tax Council, a special agency established in 1946 for the following purposes:

(1) To issue interpretative rulings with respect to Section 722 for the guidance of the field committees and taxpayers generally.

(2) To review determinations made by the field committees with respect to all claims, irrespective of whether or not agreement with the taxpayer had been reached.

(3) To make determinations in cases in which agreement was not reached by the field committees and taxpayers, and in cases where the Council did not approve the field committee's determinations.

In commenting upon the task of the Council, the Commissioner said, in his 1949 report:

"Disposition of these claims must be made under an admittedly complex statute. In addition, the work involves extensive research in the fields of economics, statistics, and related subjects in order to determine the constructive average base period net income. The results of such studies must be translated into net income figures, which will require a mass of analytical accounting work."

This brief description of the nature of the work to be done in resolving the differences between the government and the taxpayers in determining excess profits tax liability reveals that such work is so extensive, intricate, and esoteric as to be virtually impossible of accomplishment except by arbitrary findings which are either accepted by both parties out of sheer exhaustion, or are eventually referred to the courts.

All of this, and more, may be expected from a third experiment in excess profits taxation. And, as is conclusively shown by the data in Table VI, none of the administrative fumbling with economic and business issues too complicated for official disentanglement, and none of the delay and abnormal expense of research into these issues, are necessary. Every revenue objective of an excess profits tax can be achieved with a minimum of additional expense and delay for both the government and the taxpayers by making appropriate adjustment in the rate of the ordinary corporation income tax.

III

An Excess Profits Tax Contributes to Inflation

The third basis for opposition to an excess profits tax is that it contributes to inflation. This result stems from its economic unsoundness. The arbitrary application of unnatural and artificial measures of allowable normal or standard profit undermines the incentives to assume risks and to hold production costs down. It was pointed out above that the essence of economical, that is, prudent management is production at the lowest cost. The incentive to keep costs down is the other side of the profit incentive shield. A very good way to increase profits is to reduce costs. Industry is often attacked for seeking profit, but seldom praised for its effort to reduce costs. Yet the two attitudes are closely, even inseparably, connected.

Costs Rise When Profit Motive Is Impaired—The consequence of undermining the profit incentive is also to undermine the cost control incentive. When management fails to give diligent attention to costs they rise, for cost is the economic analogue of the spirit of evil in theology, which is always abroad in the land except as it is restrained by the superior force of good. Exorbitant taxation that impinges on profit will inexorably take its toll of higher cost. The sequence of cause and effect leads directly from disregard of production cost to larger total payments by government for its military material, and thus to acceptance of the view that payment can be made only by resort to credit inflation. The chain reaction of credit inflation on price compels ever larger use of credit and both the government and the people are seriously affected by the spiral. At the termination of the emergency they are burdened with debt and always exposed to the political temptation to escape this burden by partial or complete repudiation. The mere fact of debt increase is, in itself, a dilution of the dollar as the basic standard of value, and hence a cancellation of some part of the values originally represented by all savings, investments, annuities, and similar benefits.

Waste of Manpower and Materials—Disregard of cost means inefficient use of manpower and materials. This is what it would mean in peacetime, and of course the same result would follow during war or other emergency. Careless and inefficient use of manpower, particularly when the available labor force is virtually fully employed, limits by so much the possible scope of production. Less goods will be turned out and if the military preempts its established quota, the full impact of the shortage will fall upon the civilian population. It is possible that a sufficient waste of manpower may occur to affect even the volume and the quality of the materials and supplies needed by the armed forces. Inefficient use of materials cuts more rapidly than would otherwise be the case into the stockpiles of scarce and strategic materials, and into the irreplaceable reserves of our natural resources.

The logic of the effect of severe impairment of the profit incentive upon cost control is inescapable. The slackening of this control would find expression in manifold ways, some open and others devious. Increases of wage and material costs would be accepted with greater complaisance, and with a shortage of manpower, there could ensue an active competition to hold workers. This would redound to the advantage of those wrokers whose favor was thus being courted but it would also be reflected in higher wage costs without there being, necessarily, a corresponding increase of productivity. During World War II there were numerous instances, some of which had a considerable notoriety, of large bonuses, abnormal expenditures for advertising and for the promotion of unavailable products to retain consumer good-will, padded travel and entertainment expenses, and so on.

High Excess Profits Tax Rates Demoralizing—The demoralizing aspect of an excess profits tax lies not only in the arbitrary character of the statutory definition of an excess profit, but also in the extreme rate or rates that are likely to be levied upon such profit as defined. During World War II this rate was eventually raised to 95%, with a refund of 10% paid in noninterest-bearing bonds which were made redeemable on and after Jan. 1, 1946. Even the net tax rate of 85.5% was an effective discouragement to any concern against seeking greater profit in the excess profit zone by careful attention to cost. There were substantial totals of excess profit reported and taxed during the war years. These were the product of large government orders, given on a far larger scale than necessary because of the lavish appropriations, and the lax standards of military procurement. The point that is emphasized here is that the certainty of a net tax rate of 85.5% on excess profit left very little incentive to show an increase of that excess by careful control of costs. Hence, the excess profits tax contributed to higher production costs, and thus to a larger volume of credit inflationary financing.

Inflation of War Cost—The thesis advanced here is that the excess profits tax contributed to the inflation that occurred during World War II. The primary source of that inflation was of course the creation of bank credit through loans to provide a substantial part of the purchasing power which the government used to pay its bills. The tax policy led to higher costs and hence compelled a larger volume of borrowing than would have been required if the costs had been lower. A crude indication of the degree to which inflation increased national defense costs is provided by converting the dollars of actual expendi-

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TABLE VIII

Applications for Excess Profits Tax Relief (Section 722) Cumulative, 1942-1949

(Dollar Amounts in Millions)

Item—	Number	Excess Profits Tax Reduction Claimed	Excess Profits Tax Reduction Allowed	Increase in Income Tax
Net receipts of applications (excl. transfers & reopened cases)	53,651	$6,231	---	---
Disposals:				
Allowed in whole or in part	7,791	240	$91	$37
Disallowed	10,659	430	---	---
Withdrawn	9,865	697	---	---
*Eliminated	3,055	6	---	---
Total disposals	31,370	$1,373	$91	$37
On hand June 30, 1949	22,281	$4,858	---	---

Source: Annual Report of the Commissioner of Internal Revenue, 1949, p. 30

*Applications eliminated upon agent's finding that no tax liability existed.

TABLE IX

National Defense Expenditures, Converted to 1939 Dollars

(Dollar amounts in millions)

Year	National Defense Actual	National Defense 1939 Dollars
1941	$6,370	$6,078
1942	26,847	21,881
1943	70,267	53,375
1944	83,766	62,460
1945	84,569	62,157
1946	45,134	32,251
Total	$316,953	$238,202

[2] *Report of the Senate Committee on Finance to accompany HR 4309 (The Revenue Bill of 1945) 79th Congress, 1st Session, p. 19.*

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Excess Profits Tax Is Against Public Interest

ture into equivalent 1939 dollars. This is shown in Table IX.

The difference is $78,751 million, or about 25% of the cost in actual dollars. Wesley C. Mitchell estimated that the cost of the Civil War was increased by about 25% through the inflationary influence of the Greenbacks.

There is at this time a general dread of further inflation, and fairly widespread indications of support for a strong, vigorous policy of taxation that would keep the government's revenue in balance with its outgo. To do this will require prompt, decisive action to increase taxes, because the full impact of the spending program will not be felt before the fiscal year 1952 or 1953, and because time is required to get the necessary tax machinery in motion to produce larger revenues.

Conclusion and Recommendation

It has been shown that an excess profits tax is against the public interest because it is economically unsound, administratively unworkable, and contributes to inflation.

The fact remains, however, that during a period of defense or actual war there must be a substantial increase of tax revenue, and the corporation income tax is a logical source of a part of this increase.

In view of these considerations, it is submitted that in lieu of an excess profits tax with its inevitable inflationary consequences and administrative difficulties, the tax contribution from corporations toward the pay-as-we-go tax program should be made through an addition to the corporation income tax to be known as the "Corporation Defense Tax." To effect a clear distinction between the income tax and the Corporation Defense Tax, and to avoid imposing too heavy a burden on small business, the standard corporation income tax rate should be set at 38% by changing the normal tax rate in the Revenue Act of 1950 from 25% to 18%, while leaving the surtax rate at 20%. The Corporation Defense Tax should be imposed as a flat percentage of the amount of the corporation income tax.

This proposal resolves all of the problems inherent in an excess profits tax. It recognizes that more corporation income tax must be paid during a defense or war emergency, and it applies the increase to all corporation income without regard to its origin in war business or other business. It escapes the administrative and compliance difficulties of an excess profits tax, and it will provide whatever additional revenue may be required from the corporation tax without impairing the incentives of management and bleeding the economy white so far as concerns continued capital formation. In particular, it will be much less severe as applied to small business than an excess profits tax is likely to be.

The duration of the present defense emergency, and of the heavy tax load that must be assumed, cannot now be forecast. On the most optimistic basis of calculation, however, the emergency and the increased tax burden will endure for some years. It is therefore of the gravest consequence that the measures taken for accomplisihng the financial task be such as will make possible some further growth of the nation's productive capacity rather than freezing and sterilizing our national economic potential.

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What Controls to Stop Inflation!

nese divisions in. His estimate also is indicated by his hesitation at cocking a new blow at us elsewhere while we were supposedly rocked on our heels by the Korean punch.

I am quite confident that history will write down the Korean campaign as a competent, even brilliant, feat of American arms. To have met the fanatical onrush of a half-civilized people drunk with confidence in a quick victory; to have mobilized our resources and deployed them with such speed at a point half way round the world; to have improvised ways of meeting a type of warfare we had never encountered before; to have contained the threat within 60 days, mounted and delivered a dashing and successful counter attack in 90 days is something which should give us confidence in our military establishment rather than be the occasion either for disparaging them or underestimating our national capacities.

We are being flooded today with admonitions to Uncle Sam: "Don't let your guard down." I fully concur in the wisdom—in fact the grim necessity—of heeding this advice. For Korea, on top of the Greek guerrilla campaign and the Berlin airlift, make it clear that we might be confronted by repeated Soviet attacks during the coming years. Personally, I have not the slightest fear that Uncle Sam at this juncture is going to let his guard down. He has just finished demonstrating for the third time that he has an alert eye and excellent boxing ability. What the fans really are calling for is not that Uncle Sam shall not let his guard down but that he shall thresh out in an impatient and exhausting effort to score a knock-out. What he needs is to continue a careful ring strategy that will make sure he stays the full 15 rounds to win a clean-cut decision. I think it is time in fact that we change the form of our warning. From the economic point of view, I suggest the one that rose—I think at the Galento fight—"Hey, Palooka, don't knock yourself out!"

Military and Economic Security

In all seriousness, I believe that the danger is that of stepping up our military program to a point that would be self-defeating. It is the essence of the economist's trade that he seeks to discover how, with the minimum allocation of resources, we may attain maximum efficiency in accomplishing a given end. If we are really to be prepared to meet possibly great military dangers not merely in '51 but in '52 and '53 and later years, we need in the meantime to withdraw as few men and women as possible from our civilian labor force, drain off as little as possible of materials, some of which are definitely scarce, and maintain as satisfying conditions of life as can be continued while yet we are contributing our part to keep the free world safe from invasion by Soviet imperialism.

Here I wish to go back to an address that I delivered at the invitation of Secretary Forrestal before the first of a group of orientation conferences held at the Pentagon in November, 1948. I there pointed out that the soldier in time of actual war properly thinks of all the resources of the country as available to him if need arises, whereas the economist in peacetime thinks in terms of organizing the resources of the country most fully to produce more consumer goods and a richer and freer life for the whole population. But

". . . there is a common ground on which the military man and the businessman or economist can and must meet. This common ground is likewise the field of decision on which the President, the Congress, and the thoughtful citizen must take their stand during the next few months and over the ensuing years. The common problem in whose solution both points of view and both types of professional competence are required is that of the needed balance between military striking force and the civilian reservoir of men, morale, and machinery upon which the actual fighting force must depend in this day of industrialized warfare. . . . In providing the means of modern war the whole structure of economic society is involved."

The country is glad to abide by the decisions of its top military men, as to the strategy to be followed in combating military danger. But by the same token, it should look to its leading businessmen and economists to say what strains an economy can stand and how an industrial and financial system can best be geared to meet the demand of long-run preparedness. This division of labor underlies the principle of civilian control af the military that is one of the pillars of our constitutional democracy. General Omar Bradley, Chairman of our Joint Chiefs of Staff, dealt very wisely with one phase of the matter in his recent article on "U. S. Military Policy: 1950." He said:

"The conduct of foreign affairs is a civilian responsibility. Military policy in our democratic America must always remain the servant of national aims. But today, amid new global dangers, neither the diplomat nor the soldier alone can lead the American people to wise international action. Both voices must be heard if the course pursued is to be realistic and effective. The soldier can see strategic perils that the civilian might readily overlook. The soldier must not direct the civilian policy, but the civilian must never overcommit the soldier. We must never have a foreign policy that sends our armed forces to world tasks beyond their capabilities."

This is admirable as far as it goes. But it needs to be completed with these two sentences: Neither should the military and foreign relations services, either jointly or separately, overcommit the nation's industrial system. Nor should our foreign policy, our military effort, or our industrial undertakings overcommit our financial resources or jeopardize the solvency of our monetary system.

That is the opportunity and the responsibility which the American people face in these next few months or even weeks—of wisely gauging the weight of the international burdens that we shall face and what course of action, public and private, will enable us to carry that burden most securely and with as little discomfort as possible.

The Current Economic Outlook

I have spent so much time in orientation or showing you the selection and interpretation of facts from which I approach the current business situation that I have only a few minutes left for comment on that situation itself. I shall, therefore, limit myself to three points: (1) the overall supply and demand, or market, situation; (2) the impact of aggregate fiscal and monetary influences; and (3) the issue of controls. I can do no more than throw out a few categorical propositions. These may provoke you to counter-argument and perhaps reexamination of the basis of your own views. Or you may find some of my suggestions acceptable as a basis for your own further thinking.

We have of course been in a state of full employment and high production, and the first reaction to the proposed military expansion is that this will make the market situation, manpower shortage, bottlenecks of materials, credit strain, and price inflation at once and seriously worse. Personally, I think that this overstates the case for two reasons. First, we have in the last few months and in the last few years laid on a considerable amount of economic fat in the way of industrial capacities and satisfaction of consumer wants. Second, and partly as a result of the first, the new war effort will be in no small degree a substitution of military absorption for civilian consumption.

If, in the rethinking of our problem between now and next January, military appropriations are frugally scaled to carefully calculated risks, and the Defense Department kept to the business standards of economy and efficiency that ex-Secretary Johnson worked valiantly to introduce into the military establishment, the strain from the supply and demand side need not be too serious. With only a reasonable amount of economic statesmanship in Congress, in corporation offices, and in union headquarters, we might, after the ragged break which we have made from the starting gate, settle down to a steady and sustainable pace for the long pull. This will certainly require that policy be geared to at least a 10-year perspective, with burdens not larger than can be borne by the economy without breakdown and by the people without serious loss of morale.

As to fiscal and monetary influences, inflation was under way before Korea, and the inflationary potential has been markedly increased since. I am one of those old-fashioned people who believe that Congress must hold its spending proclivities down and boost its taxing determination up to a point where we put ourselves on a pay-as-you-go basis. Only so can we provide a monetary setting in which the not-unmanageable supply-and-demand factors of the national market can work themselves out without dangerous demoralization or highly undesirable controls. It would really be some of both because I do not believe that price controls will really contain the inflationary impact of continued large deficits.

On the monetary side, credit control is a powerful but as yet untested tool. The recent movement of the Federal Reserve Board to exercise the responsibilities of a central bank toward monetary stabilization are just coming to the show-down stage. We shall be seeing what skill and agility the Reserve Board authorities will display. We shall also test the willingness of our people to be stabilized or see whether each particular group will resort to political pressure as an escape hatch.

As to the action of Congress in the fiscal area, I am afraid that a temporary easing of our situation may lull them into a lavish attitude on appropriations and a wobbly one on taxes. As you all know, the price indexes have flattened out and there seems a possibility that they might even recede somewhat. There are lots of people in Congress and out who would like to conclude from this that "it ain't gonna rain no more" and thus it isn't really necessary to fix the roof.

As to special government controls, they have been demanded and already to some extent invoked by people who look hopefully to bread pills and poultices instead of accepting needed major surgery. My own attitude on controls is that those which intervene in the price system, including wages and profits, are not only burdensome but economically mischievous. They freeze the bearings and put sand in the gear boxes just when we should have maximum flexibility to effect the myriad local adjustments and readjustments that are needed in any conversion period. In an address a few days ago, I expressed the view that "If Dr. Alan Valentine can keep his Economic Stabilization Agency down to an advisory rather than an operative role, he will have earned the gratitude of his fellow citizens." Whether he can or not will probably depend on the spending-taxing ratio that Congress works out.

Materials controls have in my judgment greater usefulness and less danger, assuming that they are applied with technical skill and practical wisdom. They can be made specific as to physical operations and, with proper administration, can be imposed, modified and lifted with more promptness and fewer after-effects than can price controls. They can favorably condition the market situation toward accomplishing indirectly what price controls seek—and fail—to do directly.

Fiscal and credit controls, because they affect aggregates, have tremendous power. If they could be applied scientifically, they could be major stabilization devices even in such troublous times as we are now in. Slowed down to the pace at which Congress can act and subjected to the political forces which bear upon it, it seems very doubtful that fiscal policy will contribute much to relieve the strains imposed by the preparedness effort. On the contrary, I fear that the deceptive lull in the market situation due to the turning off of civilian demand before military disbursements rise massively may mean that about a year from now a delayed inflationary explosion may hit us.

As for credit controls, the Federal Reserve Board has about as close an approximation to a scientific apparatus for determining policy and action as it would be possible to set up in a free enterprise government. Personally, I anticipate that the resentments of those who are adversely affected by credit rulings will prevent even a fair test of the effectiveness and limitations of this stabilization device.

In free America it is "we" not "they" who will determine the outcome of the economic tests that confront us while military threats have to be met. We are in rehearsal for the drama of tomorrow. The whole world is our audience and Stalin sits watchful in the No. 1 box. Let us lose no time in getting together for an impressive performance!

In Investment Business

PITTSBURGH, Pa. — Elizabeth B. Furman is engaging in a securities business from offices at 507 Liberty Avenue.

With Investment Service

(Special to THE FINANCIAL CHRONICLE)

DENVER, Col.—Howard Murray is with Investment Service Corp., Security Bldg.

Continued from first page

Inflation Impacts on Investments

siderably less than 5% of production is going for rearmament. This means that we face the problem of supporting a rearmament boom on top of the greatest peacetime boom we have ever known, unless steps are taken to shrink civilian demand. This is true because, obviously, little can be done about the rearmament pressure on the economy, as Stalin and the Politburo "call the tune" on all matters of military preparedness.

In a directed economy such as we have, the government can do many things to reconcile demand and supply when the public interest so requires. **Effective** demand can be increased, diverted or reduced by both direct and indirect means. Supply, likewise, can be shaped to fit the most pressing, or most socially desirable, needs of the economy.

Steps Already Taken to Curb Inflation

Several steps have already been taken by the government to curb further inflation.

First of all, **taxes** were promptly raised—and how! Moreover, as an earnest of "things to come," the present law provides for a further increase in taxes next year! Taxes simply mean that your purchasing power is transferred to the government. Civilian purchasing power is thus directly reduced, to say nothing of the pyschological effect.

Measures taken to reduce **effective** demand by means of credit control are numerous, fundamental and categorical. Moreover, it has been officially announced that these quantitative restrictions will be prosecuted vigorously and, in addition, will be tightened as experience indicates the need. These credit control measures are so important that they merit specific consideration.

First, the **rediscount-rate** of the Federal Reserve Banks was raised from 1½ to 1¾%. As you know, such action is far more important than a mere increase of ¼ of 1% in the basic rate of interest. It trumpets the views and the intentions of the money managers, and thus has a powerful psychological effect under most circumstances.

Second, the **short-term rate** on government securities was permitted to rise above the 1¼% rate which many had viewed as the top limit that the Treasury would pay on such borrowing. Under the influence of this increase and the higher discount rate, all other money market rates increased.

Third, **consumer credit**, which had reached the fantastic level of $21 billion, was brought under control through the reimposition of wartime Regulation W. When first reimposed, it was quite mild —in fact, more liberal than the terms the better lenders were requiring as a matter of credit protection and business prudence—nonetheless, retailers, particularly furniture dealers, called on Heaven to bear witness that the regulation was discriminatory, paralyzing and unnecessary! The answer of the Federal Reserve Board was a tightening (October 16) instead of an amelioration of the terms. It was also made known that if experience indicated that further restrictions were necessary, they would be promptly forthcoming.

Fourth, **mortgage credit**, which likewise has reached unprecedented levels, has been restricted. According to Governor Szymczak of the Federal Reserve Board, home mortgages made by all lenders in the first half of 1950 exceeded $6.5 billion. By the end of June, total home mortgage debt was in excess of $40 billion, an all-time record and more than double the total at the end of World War II. In consequence, mortgage credit on new construction, for the first time in history has been turned over to the Federal Reserve Board for controls. This has been done to trim construction activity to fit the rearmament effort, by reducing the inflationary pressure flowing from the greatest housing boom the world has ever known. Regulation X, which was promulgated for this purpose, was unexpectedly severe. Simultaneous with the issuance of Regulation X by the Board, a similar regulation was issued by the Housing and Home Financing Agency covering loans guaranteed by the FHA. By requiring stiff down-payments and shortening the period of amortization, these ended the dangerous practice of no, or little, down payments and monthly carrying charges less than rent. The bitter protests of the construction industry notwithstanding, the full effect of these restrictions will not be felt for some time, as they do not apply to houses started before Aug. 3, 1950, nor do they apply to the great number of FHA loan applications which were approved in the last minute rush of the weeks before the controls became effective. (One savings bank alone announced that by working overtime during that period, it was able to give firm commitments for upwards of 2,000 new dwellings!)

Looking to the future, these credit regulations will cover nearly all loans and advances on newly constructed one- and two-family houses; they will drastically reduce the effective demand, and consequently, the production of such units. In addition, restrictions on credit extension on new rental housing and commercial construction are being prepared. Here, however, the effect will not be so great, as the credit standards are considerably higher, and thus there is not so much to be corrected.

Further Steps to Curb Inflation

Controls of a more direct nature, such as the D. O. (Defense Order) regulation, have also been instituted. Allocations and priorities are inevitable in many lines. More drastic inventory control is certain to come. And, of course, after the election, price and wage controls will be inaugurated.

While no one can say just what the extent or the severity of the price and wage controls will be, we do know the most important factors in their determination. As the unions are, as far as possible, getting their wage increases **before** the election, they will undoubtedly insist on the imposition of price and wage controls **after** the election. It seems inescapable, therefore, that their success in the current round of wage increases and the power they demonstrate at the ballot box will determine whether the controls will be mild or drastic. So, keep your eye on the election!

Probable Result of Efforts to Curb Inflation

The basic economic aspects of the investment problem might be summarized as follows: **Inflationary pressures are very great, but because of the steps already taken and those that undoubtedly will be taken, inflation will not go as far as most people think.**

Certainly, inflation will not go as far as the speculators who are selling the dollar short in the world markets seem to hope. The speculative demand for Canadian securities and Canadian exchange, part of the strength of some of the other exchanges, and the earmarking for foreign account in the last 12 months of some $2 billion of gold at the Federal Reserve Bank of New York, all represent an extreme view on the future of the dollar, and it should be recognized as such.

Impact of Rearmament and Controls on the Money Market

The immediate consequences of the civilian boom and the rearmament plans has been an increase all along the line in money rates. This was caused by the rapid increases in consumer credit, commercial credit and mortgage credit, and more recently by the anti-inflation policy of the monetary authorities.

Before joining in the chorus of "Happy Days Are Here Again," however, lenders should weigh the later consequences of the steps which have been taken by the government to trim the civilian economy and purchasing power to fit the increasing pressure of the rearmament program and to curb inflation. To put it briefly, the direct controls of defense priority and allocation of scarce materials will largely remove the need for quantitative credit controls. But, if not, the monetary authorities still have Regulation W and Regulation X, and the screws can be tightened a little more! This is one "deal" that the Administration can't lose, because they can work it from both sides to the extent that is necessary to accomplish their purposes. Whether the decline in mortgage credit and consumer credit arises from restrictions on the use of raw materials or from retrictions on the use of credit, is immaterial—the only fact of significance to the money market is that **when the full effect of these measures is felt, there will be sharp decreases in the demand for credit and capital, particularly mortgage financing. This means easier money conditions.**

In short, although the immediate outlook is for a continuation of tight money, we can anticipate a decrease in money rates once the controls become fully operative.

In any event, there is no question about the 2½% rate; it will not be broken. The rearmament program guarantees that. So, there is no need of selling the long-term tap issues if you hold them, especially if you have no better place for the proceeds!

By the same token, should high-grade corporate bonds go down because of the current increase in money rates, don't hesitate to buy them.

Impact of Rearmament and Controls on the Price of Equities

Equities, however, as always, are quite a different problem. I can't recall a time when stock prices were subject to so many diverse influences.

On the **favorable** side, we have the certainty that overall business activity will be at an extremely high level for a long time (in fact, it may be almost indefinitely, if the Russian impasse is not broken!). The demand for commodities is great. The sellers' market offers possibilities of economies which, undoubtedly, will not be overlooked. In particular, simplification of styles and elimination of annual models will mean a great deal in some industries (the automobile industry for example, is expected to standardize production on the present models for the duration of the rearmament program). And, finally, profits are at a satisfactory level in most industries and are increasing.

On the **unfavorable** side, taxes are higher and will go still higher. Already the corporate normal and surtax rates are higher than in World War II, and, as I said, there is more to come! An excess profits tax is a certainty (in this connection, it should be borne in mind that the tax will be based on **excess** profits—profits greater than some arbitrary standard set in Washington—and not on war or **rearmament** profits). Higher wages are a certainty in many industries. Higher costs due to overtime, "green" labor and the other inefficiencies which flow from what might be called "over-employment" are also inevitable.

These powerful opposing factors indicate that the indiscriminate buying of equities, as some people seem to be doing, is no solution to an investment problem. Of course, indiscriminate buying of equities never was a solution to anything (except how to get to the poorhouse quickly!), but it is less satisfactory under present conditions than ever before.

If you are tempted to buy equities solely as a "hedge" against inflation, take a good look at the record before you go overboard! You will find that an increase in commodity prices does not necessarily mean an increase in stock prices. In recent years, for example in the 1946-1948 period, commodity prices went up sharply while equity prices stayed down; in 1949-1950, commodity prices went down while equity prices went up!

Policy on Equities

Quality counts for more in common stock than in most any other line. With quality as a prerequisite, a sound policy on equities would give high priority to the purchase of the following types, under present conditions and outlook:

At the head of the list would be good dividend paying stocks of old, well-established companies, which would not be hit too hard by the excess profits tax. High on the list, also, would be the stocks of integrated oil companies. Demand is assured, and growing, in war and in peace. The tax advantage flowing from the favorable treatment of depletion and the "inflation hedge" aspect of the long-term realization on their underground reserves, makes them especially attractive at present. The stocks of companies which turn over their inventories rapidly also offer special advantages, under current conditions and outlook. They are practically assured of good profits in a period of rising prices and strong demand.

Policy on Real Estate

As to policy in the real estate field, beyond question the real estate price structure has been considerably strengthened by recent developments. Mortgages are more attractive than before Regulation X. This is particularly so because the supply is bound to decrease. Now is the time to buy them if you can find good ones, as they will be much harder to come by later.

This is also a good time to buy commercial property and rent it back on a participating lease basis. A fixed rental and a share of the **gross** income constitute the best basis for protection under present conditions and outlook. Obviously, you should under no circumstances base the lease payments on **net** income.

Conclusion

In closing, may I paraphrase a copybook theme. These may be times that try the souls of investment men, but they enable you to rise above the common run of men and prove that their faith in your professional competence is fully justified. Now is the time to be tough-minded and reach your own conclusions through the process of research, analysis and judgment! Now is the time for vision and imagination. Now is the time for discrimination and **good judgment.** Now is the time to prove that you are a real investment man.

People Really Balloting on Dollar: Rukeyser

Commentator maintains elections will decide real value of people's life insurance, savings, bonds, pensions, and annuities.

BETHLEHEM, Pa.—In the balloting on Nov. 7, the American people will be making decisions bearing on the future buying power of the dollar, and hence on the real value of their life insurance, their money savings, their bonds, their pensions and their annuities.

Merryle S. Rukeyser

This viewpoint was expressed here Oct. 28 by Merryle Stanley Rukeyser, economic commentator for International News Service, in an address before the Bethlehem Dinner Club.

Mr. Rukeyser, who is author of "Financial Security in a Changing World," asserted that "with the crossing of the economic rubicon approaching," it is timely in a bipartisan spirit to evaluate the economic consequences of decisions affecting personalities and issues. A strong and independent 82nd Congress, consisting of men of foresight, economic maturity, and a capacity to dissect policies or procedures, would be a step toward solvency and control of the threat of a runaway inflation.

"On the other hand, a new mandate for 'bread and circuses,' at this time when international tenseness makes for extraordinarily high military expenditures, would be an invitation for reckless inflation. In his own self-interest, it behooves every voter to find out where local candidates stand on the great economic issues. Once candidates have committed themselves to a policy of financial prudence and forbearance, citizens should undertake to hold them to the line through frequent direct communications and, if necessary, through critical letters to the editor of the local newspaper."

Having just completed a transcontinental fact - finding tour which took him from coast to coast and from border to border, Mr. Rukeyser pointed to the current high level of business activity and employment. The economist declared that the momentum would last for some time, and gave management an opportunity to improve internal business practices and defects. He admonished against becoming overextended during an inflationary boom.

Correction

In The "Financial Chronicle" of Oct. 26 it was reported that Werner G. Smith, Inc., Union Commerce Building, Cleveland, were engaging in the securities business. This was in error, we are informed, the firm being authorized to deal only in their own securities. It is not engaged in a general securities business.

Darragh A. Park, Jr., With Courts & Co. in N. Y.

Darragh A. Park, Jr., has become associated with the New York City office of Courts & Co., 30 Broad Street. Mr. Park was formerly with C. J. Devine & Co.

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As We See It

instances would reduce or even put an end to abuses which have arisen during the past few years of inflationary trends. Obviously, of course, they strike unevenly at various types of business, and give ground for complaints of discrimination which may at times at least have validity. More general credit control, such as that taking the form of higher reserve requirements, could be effective in reducing total money supply, and, via the psychology route, tend to reduce the degree in which funds in being are employed by their owners. They could also be of little consequence—depending upon the line of Reserve policy—as respects the obligations of the Federal Government. The most virulent element in the existing inflationary potential stems from the enormous past purchases of such securities by the Federal Reserve itself. Of late, there has been a declaration of independence on the part of the Reserve authorities. Whether it will really stick, and the extent to which the authorities are ready to go in the event of a real break in the government bond market, are, however, still matters of conjecture.

A Governmental Responsibility

The fact remains that none of these measures goes to the root of the inflation threat by which the country is now faced, and it is rather more than doubtful as to whether any of them really get at the root of the inflationary potential now existing in this country. The ultimate responsibility lies not with the Federal Reserve but with those branches of the Federal Government which control the fiscal affairs of the nation. The Reserve authorities have in the past—whether reluctantly or not is not here in point—been led to support the Treasury in wrong-headed fiscal policies, and thus to make much easier the faulty financial management indulged in by the Administration and Congress. The Reserve Board should in our opinion initiate a program now of gradually undoing the mischief it did during the war. It, one hardly need add, should resolutely refuse to be a party to similar courses in the months and years to come regardless of what lies ahead.

But to ask the so-called central banking authorities in this day and time to pursue such a course in the face of the pressures which the Federal Government can bring and doubtless would bring upon them is a counsel of perfection. It is to ask for better bread than can be made of the wheat currently available. Whether, even if it could succeed in pursuing such a course, it could oblige the Federal Government to conform, is rather more than doubtful. There are many ways in which a determined Administration and a slovenly Congress could circumvent such action by the Reserve authorities. The central bankers of the nation should, of course, do all that lies within their power to "hold the line," but their success or failure would in any event be determined by the cooperation received from the Treasury and from Congress.

Reduce Outlays!

As to the future, the first requirement is to reduce outlays to an absolute minimum. Billions should be ruthlessly stricken from non-defense expenditures. No one should for a moment accept the plea that such reductions are not possible. They are possible, and they should be effected at the earliest possible moment. Then, every effort should be made—as was not made during the war—to place military operations upon an efficient footing. There is not the slightest doubt that soldier for soldier, all things taken into full consideration, World War II cost us more than any other war ever cost any nation in the world. The usual excuse that the urgency of war made it foolish to stop to count costs, is simple humbug. We spent money like drunken sailors, spent it in ways and for purposes which had nothing to do with winning the war. We cannot continue this sort of thing indefinitely, the less so if we are to carry not only our own cost burdens, but those of about half the world.

Having pruned expenditures to a minimum, we must collect from ourselves taxes, soundly conceived and efficiently levied, in amounts necessary to meet outlays, at least so long as such outlays remain in the ranges now envisaged. Let no one say that this is clearly impossible; we insist that it is clearly possible, and indeed the only way by which we can avoid very costly and troublesome inflation now and in the future. Selling bonds to "bona fide investors" as a means of avoiding inflation arising from Treasury deficits can succeed only in circumstances which do not today exist and are not likely to be brought into being in the early future.

Such tasks are for Congress and the Administration, not the banking system.

Continued from first page

Problems in Production Race with Russia

rate of output. The most important immediate problem of the country is to get the additional output required for defense without retarding the growth in the country's productive capacity. The second most important economic problem of the country is to get the needed production with the least possible inflation of prices.

II

The first effect of the Korean War has been a very encouraging rise in production. Between the second and third quarters of 1950 the gross national product, corrected for the advance in prices, increased about $4.8 billion, as an annual rate, or about 1.8%. The index of industrial production, which in the second quarter of 1950 was 11.9% above last year, had jumped by September to 18.0% above last year. Employment between May and September increased 1.5 million in comparison with an increase of 700,000 last year and unemployment, which had been running about the same as a year ago, dropped to more than a million below last year. The increase in output made possible a 3% rise in the quantity of goods going to consumers. This figure allows for the rise in prices. Particularly important, non-agricultural business concerns substantially increased their expenditures on new plant and equipment. In the May survey non-agricultural enterprises reported that they expected to spend on new plant and equipment during the third quarter at an annual rate of $17.9 billion; in the July-August survey they reported planned expenditures at an annual rate of $20.2 billion, a rise of 13%. These figures do not include various equipment and construction outlays charged to current expense. Part of the increase represents an advance in prices and construction costs and part of the outlay will go for special equipment that has no use in civilian production. Nearly all of the substantial increase in outlays by electric and gas utilities, railroads, mines, and commercial establishments, however, adds to the country's capacity to product civilian as well as military goods, and much of the higher expenditures in the manufacturing industries add to the country's overall capacity. It remains to be seen whether business concerns were able to raise their purchases of plant and equipment by the planned amount.

The rise in expenditures on plant and equipment in the third quarter of 1950 was possible because little increase had occurred in the output of military goods. Can the economy continue to expand its capacity at a high rate after there is a large rise in the output of military goods and can a high rate of outlay on plant and equipment be continued without producing a substantial rise in prices and the many inequities that go with such a rise?

III

In the second quarter of 1950, all expenditures on private industrial plant and equipment, agricultural and nonagricultural, including outlays charged to current expense, were running at an annual rate of about $30 billion. A reasonable target for the next year or so would be a continuation of these expenditures at that rate. There are two ways of accomplishing this result in the face of a rise of $18 billion to $28 billion in outlays on defense and foreign military aid. One is by an increase in the total output of the economy. The other is by cuts in the consumption of individuals and in the purchase of nonmilitary goods by the local, state and national governments.

How much can the output of the economy be increased during the next year? The "normal" increase would be between 3% and 4%, or between $8.4 billion and $11.2 billion in dollars of third quarter of 1950 purchasing power. The actual increase depends upon the growth in the labor force and the rise in output per manhour. During the next year, it ought to be possible to increase the labor force by more than the usual amount, partly by increasing the proportion of women of working age who are employed, partly by postponing the retirement of men now in the labor force, and partly by drawing back into the labor force men who recently retired. The proportion of women of 14 years of age or more in the labor force was over 36% in 1944 and is now about 32%. It ought to be possible to recover about half of the drop that has occurred since 1944—particularly in view of the fact that working has been gaining rapidly in popularity among women of 44 years of age or more. If the proportion of women of working age in the labor force were raised to 34%, the increase in the labor force would be about 1.1 million. By postponing retirements and drawing back into employment recently retired men, the proportion of males of 65 years of age or more on the labor force could be raised from 45% (the present figure) to 50%, the ratio reached in 1944. This would add about 300,000 to the labor force. Raising the proportion of men above 65 years of age and of women of all working ages in the labor force, together with the normal growth of the labor force, ought to make possible a rise of 2 million to 2.5 million in the number of people employed (including those in the armed services) during the next year.

The normal rise in output per manhour seems to be about 2.5% a year. Can this rate of increase be maintained at a time of very high demand and of large shifts in the kind of goods produced? Probably not, at least during the first year of the enlarged defense program. Indeed, it is quite possible that there will be a small drop in output per manhour during the first year of the enlarged defense program. During the third quarter of 1950, unemployment averaged 2.7 million. It will be still further reduced—probably by about 1 million to around 1.7 million—higher than during the Second World War, but lower than in 1947 or 1948. If there were an expansion of the labor force (including the armed services) of 2 million, a reduction of unemployment of 1 million, no increase in output per manhour, and no significant change in the length of the work week, the gross national product in the third quarter of 1951 would be running at the annual rate of $295 billion in dollars of present purchasing power. If there were a drop per manhour of 1%, the gross national product would be at the annual rate of about $292 billion of present purchasing power. If the labor force were to increase by 2.5 million, output per manhour were to rise by 2.5%, unemployment to drop by 1 million, the national product would be running at the annual rate of $305 billion of present purchasing power. This spread of figures, from $292 billion to $305 billion, is a wide range of estimates. The lowest is probably too low and the highest too high. A middle figure of about $298 billion in present dollars, or about $16 billion above the annual rate of production in the third quarter of 1950, will probably turn out to be not far from reality.

If the country can increase its output by $16 billion during the next year and if the absorption of goods by defense and foreign military aid rises by $18 billion, nearly all of the defense needs can be met out of the increase in production. If expenditures on defense and foreign military aid are to be raised by $28 billion (in terms of present dollars) by the end of 1951, they will be running at the annual rate of about $23 billion in the third quarter. In order to prevent expenditures on industrial plant and equipment from falling below the second quarter of 1950, some drop in the consumption of goods by individuals and by local, state and national governments for nonmilitary purposes would be necessary. Since the rate of outlay for industrial plant and equipment in the second quarter of 1950 was somewhat below the third quarter, a cut of about $6 billion in the consumption of goods by individuals and in the nonmilitary expenditures of the local, state and national governments would suffice to make unnecessary a drop in the increase and replacement of industrial plant and equipment.

IV

How can the absorption of goods by consumers and the absorption of goods for nonmilitary uses of the local, state and national governments be reduced by about $6 billion a year? Unfortunately, no large reduction can be expected in the nonmilitary consumption of goods by the governments. Perhaps about a billion of nonessential government expenditures on goods (as distinguished from transfer payments) might be cut off.[1] This leaves a need for reductions of $5 billion in the purchases of goods by consumers. In order to release the right kind of productive capacity for the output of military construction and durable military goods, the cut should be largely concentrated in expenditures on housing and durable consumer goods. In the second quarter of 1950 the output of residential building and durable consumer goods was at the annual rate of about $40 billion and in the third quarter it was a little larger. Hence, cuts of $5 billion a year in the output of housing and durable consumer goods would require a reduction of about 12% in their output. Such a reduction could be brought about by allocations of scarce materials and by stricter terms of real estate and consumer credit.

V

Can expenditures on industrial plant and equipment of $30 billion a year be financed by noninflationary methods? The answer to

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1 There are, of course, additional cuts in government transfer payments (unemployment compensation, old-age assistance, support of farm prices, and aid to veterans) that might be made. Such cuts reduce the purchases of goods and services, not by the government, but by the persons who would have received the transfer payments.

this question is far from clear. One of the first effects of the Korean War was to reduce substantially the rate of saving by both individuals and corporations. In the second quarter of 1950 individuals spent 94.4 cents out of every dollar of personal income after taxes on consumer goods; in the third quarter, 96.5 cents. The drop in the annual rate of personal saving was $4.0 billion. The operating profits of corporations also fell. These are profits corrected for the inventory valuation adjustment and represent the volume of income available for distribution as dividends or reinvestment in the business. In the third quarter, profits after inventory valuation adjustment were running at the annual rate of $16.2 billion in comparison with $18.0 billion in the second quarter and $21.0 billion in the third quarter of last year—a drop of 22.8% in comparison with last year. If personal and corporate savings do not rise above the low rates of the third quarter of 1950, industry will probably have to engage in inflationary borrowing from commercial banks in order to finance expenditures on plant and equipment at the rate of $30 billion a year. The precise amount of borrowing would depend upon the size of the drop in absorption of savings by housing and other nonindustrial private building, upon the absorption of saving by government budget deficits, and upon the extent to which the purchase of plant and equipment can be financed by depreciation allowances. If the absorption of savings by housing and other nonindustrial uses drops from about $13 billion a year (the mid-1950 rate) to $9 billion, if all government budgets are balanced, and if business depreciation allowances and capital outlays charged to current account are about one-fifth larger than in 1949, bank loans of about $2.5 billion would be needed to finance expenditures of $30 billion a year on plant and equipment.

An expansion of loans of this amount would probably not quite provide the country with the additional money supply needed to match the growth in production. But if deficits in the local, state, and national budgets run $4 billion to $5 billion a year (as is likely), a substantial increase in personal saving or a considerable amount of bank borrowing by business concerns would be necessary. The low rate of personal saving during the third quarter of 1950 was in large part due to the rapid rate at which individuals were going into debt to buy housing and durable consumer goods. Tighter credit terms in these fields may be effective in bringing about the needed increase in personal saving and in preventing or offsetting inflationary bank borrowing by business concerns.

VI

How effectively can the rise in prices be controlled? Limiting the rise in prices is less important, as I have pointed out, than increasing production, but it is important. There is danger, however, that the methods used to control prices will make it difficult for enterprises to finance the expansion of plant and equipment. The problem of controlling prices has two aspects—limiting the rise in the cost of producing goods and limiting the demand for goods. An adequate program of controlling inflation must deal with both the cost and the demand aspects of the problem. The prospects are not bright that either costs or demand can be sufficiently limited to prevent at least a moderate rise in prices during the next year.

The cost of producing goods will be raised by wage increases. During the next 15 months, when the armed services will be increased by 1.5 million and unemployment will be undoubtedly less than 2 million, unions will be in an unusually strong bargaining position. In 1947 and in 1948, when unemployment averaged about 2.1 million, wages in manufacturing, as measured by hourly earnings, rose about 10.9% in the first year and 7.9% in the second year. In other industries the advance in wages was also rapid. During the next year wages will undoubtedly increase faster than in 1948 and probably faster than in 1947. Even if output per manhour were to rise by 2.5%, the advance in labor costs would be around 7.5%. If output per manhour does not increase or increases at substantially less than the normal rate, labor costs may rise by as much as 10%. These conclusions might be modified by wage controls, but there is little likelihood that such controls will be applied promptly enough or that they will be sufficiently drastic to have much effect on the rise in wages during the next year. The increases in the charges of the self-employed for goods and services may also be regarded as an increase in costs and these increases will be fairly substantial.

Some people believe that higher labor costs can be absorbed out of profits. This view overlooks the fact that corporate profits after inventory valuation adjustment are now substantially lower than at any time in the last 2½ years. The prospective rise in costs shows that an increase in prices cannot be prevented simply by measures directed at limiting the demand for goods. Unless prices rise in substantially the same proportion as costs, the advance in costs will produce unemployment which the country cannot afford. Incidentally, if wages and labor costs were to rise more rapidly than prices, the drop in profits would lessen the ability of business concerns to finance the purchase of new plant and equipment. Whether the results would be serious or not would depend, of course, upon how substantially profits were cut.

The tendency for rising costs to bring about an increase in the price level will be strongly reinforced by the growth of demand in relation to supply—especially the demand for consumer goods. The demand for goods will be raised by the growth in the labor force, the advance in wages, and the increase in the income of the self-employed. By the third quarter of 1951, payrolls and the incomes of the self-employed are likely to be running at an annual rate of at least $20 billion above the third quarter of 1950. The supply of goods available to consumers, as I have pointed out, will probably be somewhat below the third quarter of 1950.

Higher tax payments by individuals under present and proposed legislation will not absorb more than half the prospective increase in personal income. Indeed, some of the most important increases in taxes, such as the higher rates on corporate profits or the proposed excess profits tax, will not directly absorb any personal income. The higher rates of taxation of corporate profits will tend to increase the prices of goods and, to the extent that they do not, will tend to diminish the ability of corporations to expand their productive capacity. An excess profits tax would absorb increases in corporate incomes, but not in the incomes of consumers. Thus it would limit the very kind of spending that needs to be kept high — namely expenditures on plant and equipment.

Some of the increase in personal income that is not absorbed by higher taxes can be absorbed by a higher rate of saving. This would be highly desirable because higher personal savings during the next year or two would strengthen the willingness to spend money two years or so hence, when spending on military durable goods shifts to a replacement basis and drops perhaps $5 billion to $10 billion a year. Since the prospective rise in prices makes the purchase of bonds unattractive for individuals, corporations have a golden opportunity to raise funds for the expansion of plant and equipment by the sale of equities and at the same time to acquire badly-needed stockholders. The government is in even a better position than corporations to encourage saving, especially among small savers. Of Course, no individual wishes to buy a government bond that is bound to depreciate in purchasing power. The government, however, would have no trouble in selling a large volume of non-negotiable savings bonds to individuals if the bonds were made redeemable in a fixed amount of purchasing power. The government, however, would need to require that the bonds be held for a minimum period of time in order to be redeemable in a fixed amount of purchasing power.

The quantity of purchasing power bonds that the government could wisely sell would depend upon several conditions, including the increase in labor costs, the rise in personal incomes, the yield of the personal income tax, and the absorption of personal incomes by the purchase of corporate securities and by investment in unincorporated businesses. Personal incomes after taxes and saving would need to be large enough, of course, to buy the output of the consumer goods industries at the higher prices made necessary by higher labor costs. It is probable (although not certain) that the growth in the demand for goods caused by wage advances will be less than the rise in labor costs accompanying the same wage increases—at least during the next year when gains in efficiency will be hard to achieve. Consequently, the greater the advance in wage rates, the smaller will be the volume of savings bonds that the government can wisely sell.

VII

The prospect that there will be a moderate rise in prices during the next year or so raises the general problem of reducing the inequities of inflation to a minimum. I do not have time to do more than call attention to this important and difficult problem. The community, however, will not be able to ignore it. Certainly steps will need to be taken by private employers and by local, state, and national governments to assure that the wages of non-union employees are automatically adjusted upward for increases in the cost of living almost every three months. Although the quantity of goods that can be immediately bought will not be increased by this process, the distribution of purchases will be less inequitable and persons who would not otherwise be able to save will be able to add to their savings and thus to increase their consumption at a later day. Furthermore, the community should not again permit pensions under the old-age and survivors' insurance plan to lag behind the rise in cost of living as they did between 1940 and 1950. Rent control laws should protect landlords against having rents held down while all other prices are rising. Even a small rise in prices, such as a 10% increase, if it is a lasting rise, is equivalent to the expropriation of a large amount of savings deposits, corporate and government bonds held by individuals, life insurance policies and other fixed income assets. Individuals own over $60 billion of savings deposits and over $60 billion of government bonds. Consequently, a 5% or 10% rise in the price level means that these assets would drop by $6 billion or $12 billion in purchasing power. Nothing can be done to protect against a rise in the price level the large sums that individuals have already put in fixed dollar assets though individuals, on the maturity of bond issues, can refuse to take new bonds in payment of old ones. Current savings can be protected to some extent, as I have suggested, by the issuance of stock by corporations and by the issuance of government savings bonds payable in a fixed amount of purchasing power.

VIII

These remarks on some economic problems of a defense economy may be summarized as follows:

(1) Although the size of the defense program and foreign military aid is uncertain, the increase in the outlay on the two by the end of 1951 is likely to be from 6% to 10% of the present gross national product.

(2) For a year or two beginning late in 1951, expenditures on defense and foreign aid are likely to be greater than in subsequent years.

(3) The first effect of the Korean War has been to increase physical production in the United States by about 1.8% and to encourage business concerns to accelerate the expansion of productive capacity.

(4) The country should plan to expand and improve productive capacity during the next year at least as rapidly as during the second quarter of 1950. In that period outlays on private plant and equipment were running at the annual rate of $30 billion.

(5) The amount that the output of the country can be increased during the next year is uncertain; but it is probably between $9 billion and $23 billion in dollars of present purchasing power.

(6) The reduction in consumption that will be required by the defense program and foreign military aid is uncertain, but will probably be roughly $6 billion a year in present prices. But uncertainties on the size of the defense program and in the ability of the country to increase production make it impossible to estimate accurately the effect of the defense program on consumption.

(7) An early effect of the Korean War was to reduce substantially the volume of personal savings and the amount of corporate profits available for investment in plant and equipment.

(8) If the prewar expenditures on industrial plant and equipment are to be financed by non-inflationary methods, a considerable increase in personal and corporate savings above the levels of the third quarter of 1950 will be necessary.

(9) Prospective rises in labor costs during the next year make a rise in prices inevitable.

(10) The tendency for prices to rise will be reenforced by the tendency of personal incomes to expand in the face of a probable small drop in the output of consumer goods. Increases in the size of the labor force, wage advances, and increases in the incomes of the self-employed will cause a $20 billion rise in personal incomes during the next year. Tax increases will not directly absorb as much as half of the rise in personal incomes. Some of the most important tax increases will have no direct effects on personal incomes.

(11) The prospective rise in prices indicates that the country is confronted with the problem of keeping the inequities of inflation to a minimum.

Goodbody & Company Quarter Century Dinner

Thomas A. Larkin

Goodbody & Company's Quarter Century Club, in which there are 27 members, is having a dinner at the New York Athletic Club in the Manhattan Room on Nov. 16. Tom Larkin, partner and Manager of the trading department, is President this year. A new slate will be elected for the next 12 months at the dinner.

English Gold and Silver Markets

We reprint below the quarterly bullion letter of Samuel Montagu & Co., London, written under date of Oct. 2.

GOLD

The amount of gold held in the Issue Department of the Bank of England was unaltered at £356,-823.

The Bank of England's buying price for gold remained unchanged at 248s/0d per fine ounce, at which figure the above amount was calculated.

The gold output of the Transvaal for the months of June, July and August, 1950 is shown below, together with figures for the corresponding months of 1949 for the purpose of comparison:

	Fine Ounces 1950	Fine Ounces 1949
June	988,814	990,808
July	993,672	1,018,781
August	992,235	1,020,453

At the meeting of the Board of Governors of the International Monetary Fund held in Paris in September, it was decided that there was no reason to modify the Fund's gold policy. It was recommended, therefore, that the official price be maintained at $35 per ounce. No action was taken on the request of South Africa that gold producing countries should be allowed to dispose of up to 50% of their newly-mined gold at premium prices in the free markets. Mr. N. C. Havenga, the South African Finance Minister, said at the meeting that he would continue his efforts and that he did not give up hope that at some time in the future the Fund would modify its gold policy under the pressure of events.

SILVER

Throughout the third quarter of the year the official price was 63½d per ounce .999 fine for both cash and two months' delivery, this quotation having ruled unchanged since May 5, last. The demand for silver for use in essential industries was on a larger scale than during the previous quarter and practically all the supplies were provided from official stocks.

Dealings in "free exportable" silver continued under license and more recently a fairly general demand from the Continent has been in evidence. Business, however, has been somewhat restricted owing to poor offerings of silver of this particular category.

Continued from page 17

What Makes a Good Revenue Bond?

are and their standing in their respective professions.

Physical Condition of Utility

In addition to the revenues of the property, past and prospective, the investor is interested in its physical condition. The report of the engineer should be studied in this connection. Will the property require substantial rehabilitation in the near future? Is it so run down that the expense of maintaining it will increase from year to year? The report of a first class engineer will cover all of these factors. The engineer's report is one of the most important factors in determining what is a good revenue bond.

The replacement cost of the property is not as important to an investor in revenue bonds as are its net revenues. A property which could not be replaced for twice its purchase price would be a poor basis for revenue bond financing if its revenues were inadequate to service the bonds. On the other hand, a property having a replacement cost substantially less than the amount of the bond issue might be an excellent basis for a revenue bond issue if its net revenues were ample to pay the principal and interest of the bonds. Appraised valuations and replacement cost should not be ignored by an investor in revenue bonds, but they do not have for him the same significance which they have for the investor in private utility securities. In the corporate public utility field these factors enter into the rate structure—the rates which the utility can lawfully charge for the service rendered. That is not true of the publicly owned utility under the laws of most states. The rates which a public corporation may charge are not usually subject to state regulation but may be fixed by the municipality at the level necessary to pay the bonds. But, however illogical it may be, the public has become so accustomed to think of public utility rates in relation to the appraised value of the property or its replacement cost that the political reaction should be considered if the appraised value of the property is substantially below the purchase price. Such a project may be economically sound but politically dangerous.

Gratification of a Construction Prospect

A construction project is based entirely upon estimates of cost and revenues. (An investor in revenue bonds issued to finance such a project, in reality lends his money relying upon the ability and integrity of the accountants, engineers and lawyers who have issued reports or legal opinions regarding the project and the bonds, and upon the reputation of the investment banker who is offering the bonds to the public. The professional reputation of these technicians is a most important factor in determining whether such bonds are sound investments.)

In such cases estimates of cost and revenue are usually based upon experience in other situations, but often data are available, or can be assembled by work in the field, upon which the estimates can be based. For instance, the revenues of an existing ferry can indicate, quite accurately, what will be the revenues of a bridge to be constructed at approximately the same place, and traffic surveys made on the ground by competent traffic engineers have proven to be very accurate means of estimating traffic on toll bridges or toll roads.

The stability of the revenues of the project is a major consideration for the investor. He must be satisfied that the revenues will remain at a level sufficient to pay the bonds over the life of the issue. When the project supplies an essential of modern life such as water, gas and electricity, there can be little doubt on this score. Sewers, especially when combined with the water plant, can usually be placed in this category. Bridges, tunnels and toll roads have had a good history of earnings and when they are strategically located, and particularly where they carry a large volume of commercial traffic, must be regarded as but little below water, gas and electric plants so far as concerns stability of revenues. Projects such as stadia, convention halls, parking garages, markets, etc., should be examined more critically. We have not had sufficient experience with these projects as revenue bond ventures to be very dogmatic with reference to this class of public improvements. Some may be very sound while others in this class may be very speculative. All that can be said is that the investor should always consider most carefully whether the service rendered by this type of project is a luxury which the public will demand in good times, but which it can and will dispense with in times of depression.

Recently revenue bonds have been issued to finance projects intended to be leased to public or private corporations. The New Orleans Union Passenger Terminal is an instance. The railroads which will use this terminal have jointly and severally contracted to pay a rental for its use which will always be sufficient to assure the payment of the bonds. In other instances the project is intended to be leased to the State or to some solvent municipality. If these leases are enforceable adequate revenues are assured, but in some cases the courts have held that the bondholder cannot enforce the lease and that his only remedy is to take over the operation of the property. The bond attorney should be held responsible for advising the investing public of such legal weaknesses in the security. The solvency of the lessees of such projects is the responsibility of the accountants and the investment bankers identified with the bond issue. If these technicians have done their respective jobs competently, bonds of this type can be excellent investments.

Applying Revenues

So far we have been considering only the adequacy of the revenues of the project. There remains to be considered the question of how the investor can be assured that the net revenues of the project will be applied to the payment of the principal and interest of the bonds. Attorneys experienced in the revenue bond field attempt to solve this problem through astute draftmanship of the resolution or indenture pursuant to which the bonds are issued and by attempting to secure independent management of the project. There is nothing more important in making a revenue bond a good investment than the management of the project. Let us consider, then, what kind of management is desirable and how it can best be obtained. I think it is almost axiomatic that the management of a revenue bond project will tend to conform to the ethics prevailing in the community in which the project is located. In a politically corrupt community, however careful the attorneys and bankers identified with the project may be in setting up the management in the first instance, it will tend to deteriorate as the years go by. (The politics and the management of public affairs in any community will never long remain much better than the prevailing ethics of the community. No lawyer, however skilled he may be, can draft a bond resolution or an indenture which will insure honest and competent management of the project over the life of a bond issue in a politically corrupt community. Fortunately political morality in the municipalities of the country is generally good.) It is the exceptional situation which gets publicity and tends to give the uncritical reader of the public press a false impression of municipal affairs. But just as businessmen usually make poor politicians, politicians usually make poor businessmen. This is not due to any difference in their respective abilities so much as it is due to differences in their training and experience. It should always be kept in mind that the project is simply a business enterprise, operated by a public rather than a private corporation. The managers of a revenue bond project, therefore, should be as completely divorced from local politics as possible. The decisions which they make regarding the operation of the project should be dictated by economic reasoning, not political reasoning. For instance, the managers of a water plant should order the construction of new service mains because of the demand for water in the area intended to be served, rather than because of the effect such an improvement may have on a forthcoming election.

Many devices have been resorted to in an effort to insure competent, independent management of revenue bond projects. Some municipalities have gone so far as to set up self-prepetuating boards composed of leading businessmen in the communities. The most common device is to appoint the members of the board for staggered terms of comparatively long duration so that no political administration during its term of office will be able to appoint a majority of the board. In some instances no salaries are paid the members of the board and an effort is made to attract to it citizens who will be motivated by a spirit of public service and by the prestige incident to service on the board, rather than because of any political or pecuniary profit which they might derive from such service. Because there is nothing so important to the protection of the interests of the investor in revenue bonds as the management of the enterprise, he should consider most carefully the initial set-up of the project and ascertain not only that the management first established will be free from political domination, but also whether it is likely to remain free from such domination. If there are other ostensibly independently managed revenue bond projects in the community, he should inquire to what extent the political authorities have sought to, or actually do, influence or control the management boards of those projects. If they have been subjected to political pressure there is little reason for him to believe that such political pressure will not be brought to bear upon the board under consideration.

The operating personnel which will operate the project under the supervision of the management board is also a matter of considerable importance to the investor. The operating personnel should be selected for its experience and ability in that particular field. Advancement among the personnel should be on the basis of ability and performance and not because of political considerations. The most efficiently operated municipal revenue bond projects are run on this basis. The personnel are selected not because of political influence or even because they live in the community. The best available man for the job is obtained wherever he may be found, the only criterion for the appointment being whether he will be an honest, competent employee who will perform his particular function in connection with the project in the best interests of the public. It is encouraging to note that more and more municipally operated enterprises are being managed along these lines.

Bond Resolution and Indenture

The application of the revenues of the project to the payment of the bonds is regulated by the bond resolution or indenture, pursuant to which the bonds are issued. The investor should study this document very carefully because it prescribes the mechanics of operation of the property and provides for the custody, segregation and application of its revenues. In order to secure the best possible management of the project and to provide for the proper application of its revenues, the resolution or indenture should contain certain essential provisions. It should provide for the segregation of the revenues of the project from all other funds of the municipality, and it should require the application of these revenues, first, to the payment of maintenance and operation expenses, including the setting up of an operation reserve; second, to the payment of the principal and interest of the bond issue, including the creation of a debt service reserve; and third, for the payment of all surplus revenues into a surplus fund to be applied to accelerate the retirement of the debt or for other lawful purposes of the municipality.

In order to control the expenditures for maintenance and operation of the project, provision should be made in the resolution or indenture for the preparation of an annual operational budget, and for prohibitions against any expenditures not provided for by such budget. Usually, this budget is required to be prepared, in the first instance, by a consulting engineer, whom the municipality covenants with the bondholders to retain for the purpose, and who is also charged with the duty of making annual inspections of the property and the filing of annual reports. Similarly, provision should be made for the employment by the municipality of an independent certified public accountant who will prepare and file annual or semi-annual reports of the operation of the project. Both the engineer's report and the accountant's report should be made available to the bondholders, and it is good practice to provide that copies shall be sent to the State and National bank examiners, to the Federal Reserve Bank of the district in which the project is located, and to the Federal Deposit Insurance Corporation. This recommendation is made because bank examiners often criticize revenue bonds which they find in bank portfolios because they have no data upon which to base an appraisal of the merits of the security as a bank investment.

A properly drawn resolution or indenture will include covenants on the part of the municipality to charge rates, not merely sufficient to provide for the payment of the principal and interest of the bonds, but also to provide some surplus over the minimum debt service requirements. No private corporation could successfully finance an enterprise which produced no more revenues than were necessary to meet its minimum debt service requirements, and neither can a public corporation. There must be some coverage, as it is termed in the investment world, to guard against fluctuations in earnings. If the resolution or indenture provides for the issuance of additional bonds, ranking on a parity with the initial issue—and in my judgment it should—then there should be some covenant which will protect the holders of the bonds of the initial issue against the dilution of their security. This is usually accomplished by prohibiting the issuance of additional bonds, ranking on a parity with those outstanding, unless the net revenues of the project for a period of one or more years immediately preceding the issuance of the new bonds, were not less than a definite percentage of the debt service requirements of all of the bonds, including the new issue. It is advisable to permit the issuance of such bonds, under proper restrictions, because it may be necessary, even in the interests of the investors, to improve or enlarge the utility, and it will probably be impracticable to make these improvements unless the new bonds will rank on a parity with those outstanding.

I always recommend that the resolution or indenture authorize the issuance of refunding bonds without restriction, provided the annual debt service charge of the refunding bonds will not exceed the annual charge of the bonds which are refunded. Such refunding bonds cannot injure the holders of bonds which are not refunded and the refunding operation may be very beneficial not only to the project but also to the holders of outstanding bonds. The investor should give careful consideration to the provisions of the resolution or indenture regarding the custody of the revenues of the project. Usually it is provided that the gross revenues shall be paid, as received, to the trustee or fiscal agent named in the resolution or indenture and provision is made for the deposit of these revenues, in the proper amounts, in the operating fund, the debt service fund and the other funds created by the resolution or indenture. These funds should be in the custody of the trustee or fiscal agent, who should give adequate security therefor, or their protection should be provided for in some other equally satisfactory manner. The provisions regulating payments out of these funds should likewise receive attention, particularly the provisions authorizing transfers of money from one fund to another.

The resolution or indenture should be examined for covenants against free use of the project and for provisions requiring the municipality and other public agencies to pay for service rendered to them by the project at the same rates charged private persons. It should also be examined for covenants to keep the properties adequately insured, including in proper cases, covenants for use and occupancy insurance. These covenants should require insurance of the same character and amount that would be obtained by a private corporation operating a similar property.

The characteristics of the bonds are determined largely by the resolution or indenture and a brief comment upon these matters is, perhaps, in order. The maturities of the bonds should be considered with care. First, the life of the issue should be well within the probable life of the utility. The bonds should mature in such a manner that one can expect them to be paid, without difficulty, out of the available revenues, even allowing for possible fluctuation in the annual receipts. If the revenues are quite stable, as is usually the case in water, electric and gas projects, serial bonds usually can be safely issued, but in the case of projects which are subject to decided fluctuations in earnings it is better practice to issue long-term sinking fund bonds. Among other characteristics of the bonds which should receive attention is their negotiability. By that I do not mean whether they are transferable but whether they possess the attributes of negotiable instruments, like checks or bills of exchange under the negotiable instruments law. Also, consider whether they are registerable as to principal or interest or both and whether they are exempt from State and Federal taxation. Some revenue bonds are issued by Federal agencies, in which case they are not exempt from Federal taxation and many such bonds are subject to State taxation.

The resolution or indenture is sometimes of great importance with respect to the remedies available to the bondholder to enforce payment of the bonds. Usually the remedies are fixed by law but sometimes one or more remedies can be resorted to only if provided for in the resolution or indenture.

Estimation of Qualifications by Investor

It may seem that all this investigation of the merits of a revenue bond is beyond the capacity of the ordinary investor. To a certain extent that is no doubt true, but the same could be said of any other type of investment security. Excepting the highly trained professional investor, most investors rely pretty largely upon the opinions of experts in purchasing securities. The opinions of reputable accountants and engineers are accepted as sound. The bond attorney who approved the validity of the issue is relied upon to see to it that all legal requirements are met and that the bonds are valid. As a matter of fact even these experts are obliged to rely upon each other. The engineer depends upon the lawyer to guide him through the legal labyrinth and he in turn relies upon the engineer and accountant with reference to matters in their respective fields. The investment banker who offers the bonds to the public relies upon all of them. In addition he brings to the issue his financial experience and judgment. All these men stake their reputations when they issue their reports, legal opinions and offering circulars. Their livelihood depends upon those reputations and they are not likely, knowingly, to put them in jeopardy. If the investor will satisfy himself regarding the standing of these men in their respective professions he can accept their conclusions upon most of the factors necessary to make a good revenue bond.

Goshia Taken Over By Collin, Norton

TOLEDO, Ohio—Goshia & Co., members of the Midwest Stock Exchange, has announced that arrangements have been made for Collin, Norton & Co., 506 Madisan Avenue, members of the New York and Midwest Stock Exchanges, to accept custody of Goshia's customers' ledger. Russel E. Keier, partner in Goshia & Co., will become associated with Collin, Norton & Co.

Oliver Goshia is retiring from the investment business and will move to El Paso, Texas, where he has purchased controlling interest in the Canada Dry Bottling Co. of El Paso. Paul A. Meinert, it is understood, is going to Florida.

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The State of Trade and Industry

will be more than $8 a ton due to past increases in steelmaking costs, wage concessions to be granted and also to the need for large sums of money for steel capacity expansion and replacement, plus dividends to encourage investment.

The American Iron and Steel Institute announced this week that the operating rate of steel companies having 94% of the steelmaking capacity for the entire industry will be 102.4% of capacity for the week beginning Oct. 30, 1950, compared to 102.6% a week ago, or a decrease of 0.2%.

This will be the seventh consecutive week in which steelmaking furnaces will be operated at an average of more than 100% of capacity.

This week's operating rate is equivalent to 1,975,000 tons of steel ingots and castings for the entire industry, compared to 1,978,900 tons a week ago. A month ago, based on new capacity the rate was 101.2% and production amounted to 1,951,900 tons; a year ago, based on the smaller capacity then prevailing, it stood at 8.8% and 162,000 tons. The low output a year ago was due to a strike then in progress.

Electric Output Reverses Course to Attain New All-Time High

The amount of electrical energy distributed by the electric light and power industry for the week ended Oct. 28, was estimated at 6,562,518,000 kwh., according to the Edison Electric Institute.

It was 59,978,000 kwh. higher than the figure reported for the previous week, 129,765,000 kwh., or 20.8% above the total output for the week ended Oct. 29, 1949, and 1,007,264,000 kwh. in excess of the output reported for the corresponding period two years ago.

Carloadings Highest for Any Week Since October, 1948

Loadings of revenue freight for the week ended Oct. 21, 1950, totaled 890,990 cars, according to the Association of American Railroads, the highest for any week since October, 1948, and an increase of 2,431 cars, or 0.3% above the preceding week.

The week's total represented an increase of 301,902 cars, or 51.2% above the corresponding week in 1949, but a decrease of 35,986 cars, or 3.9% below the comparable period of 1948.

Auto Output Eases With Return by Ford to 5-Day Week

Combined motor vehicle production in the United States and Canada the past week, according to "Ward's Automotive Reports," totaled 187,525 units, compared with the previous week's total of 188,323 (revised) units and 137,631 units a year ago.

Passenger car production in the U. S. dropped about 1,500 units during the week, but gains by some producers nearly offset losses by others, Ward's stated. Ford's return to a five-day week at its assembly plants, after institution of six-day output a week earlier, accounted for most of the decline, the agency explained.

Total output for the current week was made up of 152,846 cars and 25,951 trucks built in the United States and a total of 6,532 cars and 2,196 trucks built in Canada.

For the United States, output was 178,797 units, and in the like week of last year 131,329. Canadian output a year ago amounted to 6,002 units.

Business Failures Recede Further

Commercial and industrial failures declined to 160 in the week ended Oct. 26 from 165 in the preceding week, Dun & Bradstreet, Inc., reports. Although remaining above the 1948 level of 104, casualties were down 28% from the 221 in the comparable week of 1949 and were off 47% from the prewar total of 300 in the similar week of 1939.

Failures involving liabilities of $5,000 or more decreased to 116 from 127 last week and were considerably less numerous than a year ago when 178 concerns failed in this size group. An increase took place among small casualties, those having liabilities under $5,000 which rose to 44 from 38 and exceeded the number occurring last year.

Retail manufacturing and commercial service trade groups had a mild weekly decline in mortality. In contrast, the number of failures among wholesalers and construction contractors rose slightly. Manufacturing was the only line having more casualties than a year ago; a marked decline occurred in other groups, with wholesale failures falling to less than one-half their 1949 total.

Failures in the Middle Atlantic, Pacific and South Atlantic states rose in the week. These increases were offset by declines in the New England, East North Central and South Central states. Only one region, the Middle Atlantic states, had more failures than a year ago.

Food Price Index Scores First Rise in Six Weeks

The wholesale food price index, compiled by Dun & Bradstreet, Inc., turned mildly upward last week. This marked the first rise in six weeks and brought the Oct. 24 figure to $6.50, from $6.48 a week earlier. Compared with $5.72 recorded on the like date a year ago, the current index shows an increase of 13.6%.

The index represents the sum total of price per pound of 31 foods in general use. Its chief function is to show the general trend of food prices at the wholesale level.

Wholesale Commodity Price Index Turns Upward Following Sharp Decline

Following a sharp drop early in the week, the daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., turned mildly upward to finish at 289.86 on Oct. 24. This compared with 290.44 a week earlier and with 244.25 on the corresponding date a year ago.

Grain markets were generally stronger last week with sales activity on the Chicago Board of Trade expanding sharply over the preceding week and the corresponding week of last year.

The uptrend in wheat was attributed to a brighter export outlook and an improvement in domestic flour business.

There was a lively interest in corn and prices moved higher, reflecting strength in soybeans and talk of using considerable corn in the manufacture of commercial alcohol. Oats prices rose largely in sympathy with other grains.

Export flour business continued very small last week, but domestic bookings of hard wheat bakery flours reached a substantial volume as some large bakers took advantage of more attractive prices to replenish their supply backlogs. Cocoa prices finished on a stronger tone, aided by dealer and commission house buying and prospects of a tightening supply situation in Brazil. Offerings from Africa were somewhat freer. Demand for coffee was slower and prices continued to work lower, influenced by larger offerings and an improvement in the United States supply situation. Lard prices advanced about 1 cent a pound on aggressive buying induced by stronger vegetable oil markets. Slaughter lambs continued active in the Chicago market with prices up from $1 to $1.50 per hundredweight for the week. Supplies of steers and hogs were ample; prices were irregular and closed slightly lower for the week.

Cotton prices moved over a fairly wide range last week. Both futures and spot markets made substantial recoveries following the sharp declines recorded a week ago.

After initial weakness, prices rose sharply on the belief that the recently established export quotas would be revised upward, while in late dealings the market was sustained by more active mill and trade price-fixing.

Reported sales in the ten spot markets increased moderately last week to 315,400 bales, from 258,200 the week before, and compared with 440,700 in the comparable week a year ago.

Consumption of cotton during the first two months of the current season was 29% larger than last year, according to the Bureau of the Census. Daily average mill consumption during September was reported at 39,500 bales. This represented a contra-seasonal decline of 2% from 40,400 bales in August, but it was about 20% above the September, 1949, rate.

Activity in cotton gray goods slackened last week with buyers showing more caution in making commitments. Some softening in prices was noted as the result of increased offerings of cloth in secondary markets at reduced prices.

Trade Volume Holds to Level of Previous Week—Seasonal Promotions Draw Wide Response

Following the stiffening of consumer credit controls, total retail trade remained at about the level of the preceding week and continued to be slightly above the level in the corresponding week a year ago, Dun & Bradstreet, Inc., reports in its latest summary of trade. Many merchants noted a wide response to attractive promotions of seasonal goods.

Shoppers throughout the nation bought about as much apparel as during the preceding week; aggregate dollar volume remained considerably above the comparable 1949 level.

Cooler weather in many parts added to the interest in coats and suits in both men's and women's departments.

There was a mild decline in the demand for children's colthing. Medium-priced sportswear and haberdashery continued to be frequently requested.

Retail food stores sold about as much as during the prior week and their total sales continued to be noticeably higher than in the similar week of a year ago. At meat counters lamb and poultry were among the most popular items; a modest slackening in the call for canned goods was noted in many areas. The demand for pantry staples such as coffee, tea and sugar continued to decline. Many housewives apparently drew on their recently accumulated stocks.

The decline in the consumer demand for hard goods continued last week; however, the total dollar volume of such sales contined to exceed the level of a year earlier. Many merchants attributed the dip to credit controls and the color controversy in television.

Total retail volume for the country in the period ended on Wednesday of last week was estimated to be from 3 to 7% above a year ago. Regional estimates varied from the levels of a year ago by the following percentages:

New England and South +2 to +6, East and Pacific Coast +1 to +5, Southwest +3 to +7, Midwest +8 to +12, Northwest +6 to +10.

As many retailers strove to reduce swollen inventories, there was a moderate drop in the total dollar volume of wholesale orders in the week, but it continued to be somewhat above the level in the similar 1949 week. The number of buyers attending many wholesale markets, while practically unchanged during the week, was slightly below the level of a year earlier.

Department store sales on a countrywide basis, as taken from the Federal Reserve Board's index for the week ended Oct. 21, 1950, rose 3% above the like period of last year. An increase of 11% was recorded for the previous week from that of a year ago. For the four weeks ended Oct. 21, 1950, sales showed a rise of 7% from the corresponding period a year ago and for the year to date registered an advance of 5%.

Cooler weather last week had the effect of lifting department store sales in New York by about 5% above the level of the corresponding period a year ago. Considering the new credit restrictions now in force the increase was noteworthy.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Oct. 21, 1950, advanced 2% above the like period of last year. In the preceding week a rise of 14% (revised) was registered from the similar week of 1949. For the four weeks ended Oct. 21, 1950, an increase of 7% was noted and for the year to date, volume advanced 1% from the like period of last year.

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Corporate Bonds vs. Municipals

low, credits are usually held in high regard. Where borrowing is easily undertaken, credit is apt to be poor.

The amount of additional debt which a city may incur within known debt limits is readily calculable, but there is another hazard—the issuance of debts technically "outside" the debt limit. If these are issued in excess, they will saddle our cities with debts which cannot be paid during years of reduced business activity. In the years leading up to 1930, a chief offender was the use of special assessment bonds. Here in 1950 we can see the beginnings of the creation of excessive debt through the use of certain types of revenue bonds, special authorities and other quasi-public agencies.

Bonds Secured by Fees, Community-wide Services and Rentals

I mean to imply no criticism of useful issues of water and electric revenue bonds. Nor can I see that general credit need be endangered through the issuance of bonds secured solely by fees for a service which the public can use or leave alone, as it wishes; I refer to swimming pools, golf courses, and the like. But I see some danger brewing in the issuance of bonds secured by charges for community-wide services such as sewer collection and disposal, garbage and refuse collection and disposal, hospital care and some others. The biggest threat to municipal general credit, as I see it, is rising from the still small but rapidly expanding use of rental revenue bonds to evade debt limits.

Rental revenue bonds have only begun to appear in volume recently. They are sold to raise funds for the construction of public buildings; the governmental body which uses a building financed under this plan pays rent for its use. Rentals are used for the payment of revenue bond interest and principal. Rental payments, of course, are derived from the taxing powers of the renting government.

In a number of states, the courts have found rental revenue bonds are not "debts" in a legal sense despite the added burden placed upon the taxing power of the lessee.

To repeat, properly conceived indentures securing corporate bonds and municipal revenue bonds place restrictions on the issuance of additional debt to the impairment of the bondholders' vested interest. Municipal general credit bonds rarely are similarly protected. Not only is the general obligation an "open-end" lien upon the taxing power, to the extent of permitted borrowings under legal debt limits, but also there seemingly is no end to the additional debts which can be piled up on the same community. In some states this piling up is accomplished by the creation of special purpose taxing districts; in other states it is accomplished by rental revenue and other types of limited liability bonds. From this one point of view, then, general obligation bonds are not always strongly protected. Fortunately, their other investment factors will be found to be very strong.

Earnings Protection

Let us now turn to earnings protection. Here, right at the start, it is important to realize the essential differences between the aims of private business enterprise and public finance. The basic aim of private business is to so conduct its affairs as to produce the largest possible amount of money to be distributed among its stockholders in the form of dividends. Concurrently, earnings of the successful business will cover interest requirements on its bonded debt many times over.

In contrast, the profit motive is not a driving force in public finance. Customarily, a municipal utility is not expected to produce large surpluses which would result in a high times-charges-earned ratio. Rates are fixed at as low a point as is considered consistent with financial stability. The goal of efficient management is to deliver service to the community at the lowest possible rate which will cover fixed charges with the smallest surplus consistent with operating stability and necessary financial liquidity. One cannot expect to find in municipal utility revenue bonds the extensive earnings coverages that one desires in corporate utility bonds. With municipal revenue bonds, rather, earnings protection derives basically from the rate-making power. Except in three states, rate adjustments are flexible, not requiring lengthy and expensive proceedings before the Public Utility Commission or other rate-fixing body.

There are, of course, some municipalities scattered over the country and particularly numerous in Florida, which fix rates for their utility services so as to produce a sizable operating income which can be diverted to the city's general fund. This is a form of indirect taxation, and presents a special problem which I will not dwell upon here.

In dealing with general credit municipals, if one were to compute a times-charges-earned ratio from the income account or from the receipts and disbursements statement, one would find very marginal earnings protection indeed. The reason for this, of course, is that at budget-drafting time, the governing body levies a tax merely sufficient to meet all the expected financial demands upon it. The earnings protection available to general obligation bonds derives, rather, from the taxing powers of local government.

Limitations on Taxing Powers

Taxing powers are always limited in one way, and may be limited in two ways. Sometimes there are legal limits, and always there are economic limits beyond which taxing powers cannot go. In some states, local governments levy general property taxes without legal limits to meet their obligations. In other states, municipalities operate under very definite tax rate limitations. Where these limitations apply to the payment of bonds as well as current expenses, credit may not be as strong as otherwise might be the case.

It is not enough that tax rates be unlimited legally. There are also economic limits upon taxing powers, tied to and stemming from the business life of the community. The ability to collect taxes in hard times as well as prosperous years depends in part on collection procedures (an aspect of management which I will touch upon later). But efficient procedures alone are not the whole story: just as you cannot drain blood from a turnip, you cannot collect taxes from a community that lacks either current income, reserve wealth, or both. Thus, general credit is importantly related to the economic background of a municipality, and particularly its future prospects. This part of municipal bond analysis differs in no essential respect from investigations into the prospects for any busines corporation.

Question of Management

In studying bond qualities, the third area of investigation is management. In private business, management is identified by the top executives of the corporation. Management tends to perpetuate itself; it is only rarely that stockholders oust their governing body. In the analysis of corporate securities, one rarely ventures to understand the psychology of the stockholders.

In public finance, the stockholders, or voters, are prone to change their elected heads with disturbing regularity. Thus it is the exceptional case where the municipal bond analyst can judge the caliber of management by looking at the works of the man. Rather, we must look to the temper of the whole body of stockholders (voters). It is perhaps this element as much as any other which makes municipal bonds so difficult of comprehension by the corporate-minded investor. It need not be an incalculable element. We can appraise the temper of the voters in a variety of ways. Do they recognize and reward competency in public employees and officers? In authorizing or countenancing spending for current expenses as well as capital outlays, are they starry-eyed spendthrifts or short sighted, penny-wise pound-foolish misers? In the tax enforcement machinery they place in the hands of their officials, do they place first emphasis upon the sanctity of private property or upon the requirements of public finance?

In a broad sense, it is probably true that appraisal of the caliber of corporate management is a relatively easy task. One need only examine and assess the record of actual operations over a period of time spanning varying business conditions. Comparable data is available for seasoned issues of revenue bonds. But because a similar operating record is not available for the analysis of municipal general credit, some investors are inclined to throw up their hands, presuming that municipals never can be adequately understood.

Actually, the record is there for all to see, if one will only search it out. There are two broad avenues of inquiry; one is the borrowing record, the other is the budget record.

In connection with the debt record, let us not be content to seek only freedom from default, or to explain away defaults because of extenuating circumstances. We can look at the maturity schedule of outstanding debt; does it indicate a desire to get rid of debt as quickly as possible? Does it drag out the payment of debt so as to make it politically painless? We can examine the purposes of previous bond issues. The use of public credit for luxury services, as distinct from vital public works, may indicate an attitude of easy come, easy go. Recurrent use of capital funds for current expenses, usually identified as deficit funding loans, welfare loans or working capital loans, and the like, are an indication of some shortcomings in budgeting. Recurrent refunding of maturing bonds may indicate lack of disposition to pay the piper.

Turning to the budget record, the basic attribute of best municipal management is budgetary stability. Small deficits need not be a subject of criticism unless they are recurring. Sizable current surpluses are nice to have, but they do not necessarily indicate skillful management. In contract bridge they tell us that we are not bidding our hands properly if we consistently score over-tricks; they say we should average out our over-tricks and our under-tricks.

Summary

At this point let us summarize our findings.

Our first point of reference was capitalization. The protective provisions of corporate bonds and municipal revenue bonds may fairly be compared. This is true despite varying meanings attached to the ratio of present debt to fixed assets. The important point is this: the indentures securing both types of bonds usually spell out restrictions upon future increases in debt.

General obligation municipals are not similarly protected. There is no way in which the investor is assuredly protected from changes in capitalization. We are seeing more and more instances of brazen evasions of legal debt limits. Moreover, debt limits have no lasting quality. They can be, and often are liberalized, and the bondholder cannot stop it. This lack of indenture protection in general obligation municipals points up the importance of other protective elements of which there are two. One is earnings protection which can be defined as the taxing power working in conjunction with economic strength. The other protective element, and a particularly important one, is management, as one can be reasonably sure that conservative management will not create a top-heavy debt structure.

When it comes to considerations dealing with earnings protection, I maintain that the unlimited tax general obligation municipal bond stands head and shoulders over corporate bonds as a class. As a matter of fact, almost any broad type of municipal obligation is in somewhat of a preferential position. Possible exceptions may be found among toll highway and bridge revenue bonds and transit system revenue bonds, for in these issues the rate-fixing power may have little meaning; the law of diminishing returns does not exempt competitive enterprises when they are operated by public bodies. With ordinary public service enterprises, such as water, electric and gas systems, and perhaps sewer systems as well, the rate-fixing power definitely is an important adjunct of earnings protection. No corporation, within my knowledge, occupies this comfortable position. Even when we are dealing with limited tax general obligations, and where a city seems to be butting its head up against the maximum legal tax rate, all hope is not necessarily lost. The taxing powers available to governments are usually many and varied, and the local government acting in good faith will make use of powers over and beyond its right to levy upon general property.

As to management, if you work with municipal governments large and small, to any considerable extent and over a period of years, you will find that, in the mass, municipal management may not be brilliant, but it is very conservative. This is particularly true in local government; it has long been noted that voters exercise a fairly careful control over the public purse strings, where they realize that their own tax monies are being committed. Unfortunately, as government gets bigger, there is a general tendency for management to become somewhat more lax. This is true as we scan the larger cities, the states, and on up to the Federal level. Fortunately, from the investor's point of view, as government becomes bigger, governmental assets increase also; the principal asset to which I refer is the taxing power.

Now and then, graft and corruption can be detected in big government; as public affairs, they are thoroughly aired. In private business and industry, graft has a more-than-adequate counterpart in nepotism and featherbedding, but these matters are taboo in the public press.

Our local governments have a remarkable capacity for survival; it is only exceedingly rare, and mostly only in mining sections, that communities have become absolute ghost towns. In contrast, if you refer to business statistics over a period of years, you will find a high rate of mortality among corporations.

Finally, in comparing municipals and corporates, perhaps we should look at the payment record. A complete accounting has never been made and probably never can be made for lack of statistics. But it is everywhere recognized that losses in municipals, though no rarities, have been negligible in comparison to experience with corporates.

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Economic Tendencies Affecting Trust Investment Policies

in other parts of the world. Such foreign investment appears likely to take the form of direct investment in branch plants and subsidiary corporations of American enterprises rather than the form of purchases by American investors of securities of foreign corporations or governments. American investors will find it to their interest increasingly to analyze the wisdom of foreign investments being made by the American corporations in which they will be buying securities.

The "Easy Money" Policy

A third economic tendency that appears to have persisted without fundamental change during the past twenty years is the tendency of the monetary authorities—the Treasury and the Federal Reserve Board—to maintain relatively low interest rates and to keep money in relatively ample supply. Federal monetary authorities began in the early thirties to loosen Federal Reserve credit and to ease monetary conditions as a device to combat the great depression. Following the financial collapse and national bank holiday in 1933, they continued to pursue the policy of easy credit during the balance of the 1930's, with only a short interlude of restriction during late 1936 and early 1937. With the oncoming of the Second World War, monetary policy was dominated by the desire of the Treasury to procure the enormous amount of funds necessary to pay the cost of war at a relatively low and stable interest rate. As a result, World War II was financed on a 2½% basis for long-term treasury bonds. Following the close of the War, the policy of monetary ease was continued and, in fact, Congressional action made credit available on almost unbelievably easy terms for consumer goods, home construction and financing.

A whole succession of acts of Congress has had the effect of removing barriers to credit expansion by commercial banks, and to maintain low interest rates on government and other high-grade securities. Despite the fact that the price of almost every commodity and service in the economy has increased dramatically during the past fifteen years, the price of credit has fallen sharply.

It is beyond our present purpose to inquire into the wisdom of this easy money policy, which has been criticized cogently by many competent observers. Rather, we may inquire whether the tendency to monetary ease is likely to continue. I find it difficult to foresee any radical change in our national monetary policy during the years immediately ahead. The Korean War and the exigencies of expanding armament outlay have already brought about selective restrictions of credit for consumer durable goods, including housing. It is conceivable that the "tough" tax policy of "pay as you go" announced by President Truman and some members of Congress will, in fact, be adopted, and that a moderate rise may occur in the structure of interest rates on government and high-grade corporate securities. Within the past two months the Federal Reserve authorities have openly broken with the Treasury and sought to bring about a rise in short-term money rates. Nevertheless, I question whether the Treasury and the Federal Reserve will seek, or even sanction, a material rise in interest rates, so long as the Federal Government is in the position of having to refinance outstanding obligations on an enormous scale or to float new obligations—and the Federal Government seems destined to be in such a position for a good many years to come. The tendency toward easy money is likely to continue.

The investment implications of this tendency are clear. They include a continuation of relatively low yields on government and high grade corporate securities, and a continuation of the large disparity between yields of money bonds and equity securities. Under a democratic government, experience shows the extreme difficulty of making credit expensive, when the inflationary consequences of easy money are round-about, indirect, and not immediately apparent. Money management in a democracy faces a dilemma, in which the easiest course of action to pursue is one of monetary ease.

Rising Price Levels

A tendency for price levels to rise over extended periods of time is another fundamental economic trend of significance to investors. The Index of Wholesale Prices fluctuates, of course, rather widely through time. Characteristically, it has risen precipitously during and immediately following great wars, and has fallen substantially in the decades coming thereafter. If we take the more basic cost-of-living index as a measure of price behavior, there is no doubt that the long-term drift of prices has been upward during the present century. We all know that the cost of living for the average family has risen more than 70% during the past ten years—an annual rate of increase of nearly 7% per annum. On the 1926 base the all-commodity index of wholesale prices stood at 56 in 1900 and at 163 last July—an increase of about 200%. The purchasing power of the dollar has been shrinking at an alarming rate.

What about the future of prices and of the buying power of the American dollar? My view is that future price level behavior will run counter to post World War I experience when prices fell, because basic institutional changes have taken place in the American economy that facilitate increases in prices and that resist decline. I refer especially to the emergence of powerful labor organizations with aggressive wage-raising policies, and to the potent agricultural bloc with its strongly entrenched "parity price" formula and farm price-support program. Reference must also be made to the enormous growth in Governmental expenditures, past and potential, which experience shows will be frequently—if not always—financed in part by borrowing from the banking system, having potentially inflationary consequences. Over the long term the probabilities are much higher for a succession of future rises in the American price level than they are for a secularly stable or falling price level. This does not necessarily mean that future price increases will occur at as rapid a rate as they have during the past decade, or that prices will rise at all times. It does mean that buyers of government bonds and other fixed income securities do not have much hope of recouping the purchasing power they have lost during the past decade. On the contrary they stand a very good chance of being obliged to accept further erosion of purchasing power.

The implications of future price level change for personal investment policy are perfectly clear. They are, that an investor who seeks to maintain the buying power of his investment assets or of their annual income, is **not** likely to do so by purchasing assets carrying fixed dollar values or fixed dollar incomes. To the extent that trust officers are properly concerned with the **purchasing power** of a trust and of its annual income they would be wise to examine how they may protect their beneficiaries by the purchase of real estate equities or the equity securities of business corporations. The possibility must be admitted, of course, that no medium of investment would, under some circumstances, provide complete protection against diminishing purchasing power of the dollar, and that all that can be done is to minimize the rate of erosion of purchasing power.

Economic Instability and the Search for "Security"

The final important economic tendency bearing upon personal investment policy to which I shall refer briefly, is economic instability and the search for "security." This has assuredly been a pronounced tendency since the great depression of the 1930's, and has manifested itself in the actions of all groups in the population—workers, farmers and investors. There is some evidence of increasing instability in the aggregate volume of production and employment in the American economy. The percentage of decline in the physical volume of production that has occurred in successive periods of depression during the present century has increased. Moreover, there is theoretical foundation for the belief that fluctuations in production, employment, and income increase in magnitude as our society becomes richer; because an increasing fraction of business and consumer goods are "postponable," and represented by durable goods like houses, automobiles, machinery, and buildings. As a result, public policy formation during the past fifteen years appears to have been dominated by a belief in, and fear of, economic instability. The resulting emphasis on "security" underlay the Social Security Act, State Unemployment Compensation systems, the government lending and loan guaranteeing programs through such agencies as the R.F.C., agricultural price support programs, and most recently the Employment Act of 1946, which makes it a national policy of the United States to maintain so far as possible an adequacy of job opportunities. Our preoccupation with preventing human hardship and cumulative shrinkages in production during depressions has produced a number of important bulwarks to our economy. One may now raise the question whether the inherent stability of the economy is not at the present time much greater than is generally realized.

Belief in instability and search for "security" has also manifested itself in the investment habits of the people. The vast increase in annual sales of life insurance provides one kind of evidence. The startling disparity between the yields of high-grade bonds and of common stocks provides a second type of evidence. We have built into the legal structure and institutional practices of investment such strong attachments to one or the other type of medium that changes in the relative rates of return from high grade bonds and common stocks do not appear to have produced much shifting from one to the other type. In the language of economics, the elasticity of substitution of stocks for high grade bonds has been exceedingly low, with respect to annual yields. This disparity has even **increased** during the past decade of war and postwar boom and inflation. During 1939 high grade bond yields (Moody's AAA Domestic Corporate Index) were 3% per annum; they fell to an average of 2.83% during 1949. In contrast, dividend yields of common stocks (Moody's 200 Stock Index) rose from 4.2% in 1939 to 6.2% in 1949. Stated in other terms, the percentage difference in yields was only 40% in 1939, and 120% in 1949. The premium demanded by investors for bearing uncertainty has risen markedly during the past decade.

It is interesting to reflect upon the significance of the following figures. The net worth of American manufacturing corporations increased by $47,100 millions between the end of 1939 and the end of 1949, which was an increase of 111%. In contrast, the market value of all stocks listed on the New York Stock Exchange increased during that same period of time by only $29,824 million, or by 64%. If common stocks were fairly appraised at the end of 1939, which was a reasonably prosperous prewar year unmarked by any speculative boom in stocks, it would appear that investors have become markedly more pessimistic in the ensuing decade, regarding the future yields from shares in American enterprises.

Will apprehension of economic instability and desire to avoid risk continue to be dominant economic trends? Evidence is appearing that they will **not** continue to dominate public action, and that we may expect a reversal of this tendency in coming years. Fear of economic instability may gradually subside, as experience demonstrates the ability of our economy to maintain (though not without fluctuations) a fairly satisfactory level of employment and production. There are signs that the public is becoming more concerned about potential price instability than about depression. "Security" is coming to be redefined in terms of stability of purchasing power rather than in terms of protection against interruption of income.

This change in attitude is manifesting itself in recent and impending changes in legislation and practices governing investment policy. First, we are witnessing the adoption of the "prudent man" rule for the investment of trust funds in an increasing number of states. Secondly, there are impending changes in laws governing the investments of life insurance companies permitting them to invest a certain percentage of their admitted assets in equity securities. Thirdly, there has occurred a spectacular growth in the diversified investment fund and of the common or comingled trust funds administered by commercial banks. When the radio and television properties of the late Thomas Lee were auctioned off by the public administrator of his estate, it was significant that one bid came from the First National Bank of Akron, Ohio, acting as trustee for the retirement plan for salaried employees of the General Tire and Rubber Company! On its face, this isolated fact points to a rather remarkable change in investment attitude and policy. Ten years ago, it was unheard of for a trustee to seek to purchase so highly dynamic an investment asset as radio and television properties to provide income for retired corporation employees. This may only be interpreted to indicate a belief on the part of the trustee that the "real security" of his beneficiaries lay in the acquisition of assets likely to produce an income stable in purchasing power rather than in dollar amount.

Recapitulation

This brief review of major economic tendencies affecting investment policy and their probable projection into the future has suggested the strengthening of several tendencies favoring equity investments. If this appraisal be correct, it should be welcomed as a socially desirable change in the financial and investment practices of our economy. Economists and financial observers have repeatedly pointed to an hiatus that has come about in the American economy during past years. There has been a gap between strong demands for investment funds on an equity basis and a comparative limited supply of funds available on that basis. Suppliers of funds appear predominantly to have demanded a creditorship position, whereas demanders of funds desired predominantly to accept them on an equity basis. The results of such an hiatus could be—and were—a serious blockage of the flow of savings into investment and a consequent reduction in aggregate demands for goods and services in the economy, with resulting underemployment. This was one of the major possibilities contemplated by the theory of employment developed by the late Lord Keynes which, in turn, gave rise to much pessimistic theorizing about "economic stagnation" and the "mature economy" lacking an adequate volume of investment.

Current tendencies indicate that adjustments are being made in the terms upon which funds are supplied for investment, which may remove financing obstacles to a sustained high level of investment, and which will contribute to the future progress of our economy. It is to be hoped that this constructive development will be accompanied by an environment for business enterprises which provides strong **incentive** for future business expansion.

Railroad Securities

Great Northern

The return of Great Northern to a $1.00 quarterly dividend rate last week, after two quarters in which only $0.75 a share was paid, caused little surprise in financial quarters. As a matter of fact, there were few analysts who had seen any justification for the cut in the first place. The earlier $4.00 rate had only been made effective in the last half of 1948 after an extended period of consistently favorable earnings and highly conservative financial policies. Once the higher rate had been established, it had been felt generally that it would be maintained unless a real recession developed. A policy of cutting dividends in response to merely temporary ills naturally adversely influences investment regard for any stock.

There is no question but that Great Northern has had more than its share of troubles in the past two years. In 1949 the unprecedented storms in the early months of the year were a serious problem to a vast majority of the roads serving the western section of the country. Transportation service throughout most of the area was completely disrupted for weeks at a time. As a result, and even though Great Northern's operations were good throughout the rest of the year, 1949 earnings dropped to $6.05 compared with $8.91 a share earned in 1948. Considering the company's favorable debt status and adequate finances even such earnings appeared sufficient to justify a $4.00 annual dividend rate.

This year Great Northern had a series of its own particular troubles, not affecting most other roads in the west. Weather conditions were very severe in the Pacific Northwest in the opening months. Later, floods along the Red River seriously hampered operations. Then, because of ice conditions, the Great Lakes had one of the latest openings on record. This delayed the start of the important iron ore movement over the road's lines. As a final blow, Great Northern was one of the western roads whose lines were tied up by a strike of switchmen in late June and early July.

Traditionally Great Northern does poorly in the first part of the year. Its traffic is highly seasonal and operating deficits in the first three or four months are not uncommon. This was particularly pronounced this year. Consistently through July results ran behind the like 1949 periods and for the full seven months a net operating deficit of $1,321,449 was sustained. This was in sharp contrast to net operating income of $6,924,354 a year earlier. The year-to-year deterioration in net results was equivalent to more than $2.70 a share of stock outstanding.

There was a decided change for the better in the company's affairs in August and this improvement continued in September, although at a somewhat slower pace. With these two past months of good results, earnings on the stock for the nine months through September climbed to $2.87 a share. In the first nine months of 1949 the company earned $4.09 a share. Prospects over the balance of the year are good so that a further reduction in the year-to-year earnings lag appears certain in the last quarter. Final results for the year are, however, heavily dependent on weather conditions.

At worst, it is now estimated that 1950 results as a whole will be within a few pennies of the $6.05 a share earned last year. If the weather stays mild, allowing an extension of the lake shipping season beyond the normal time, the road could do considerably better. The iron ore situation is very tight. In fact, it has been necessary to resort to all-rail shipments this summer to meet the demands of the steel mills. On this basis, it is obvious that iron ore movement to the Lakes will continue as long as possible this year. Also, unless unforeseen difficulties again intervene it seems certain that earnings comparisons throughout the first half of next year will continue highly favorable.

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Corporation Financial Statements Explained

tween total current assets and total current liabilities. In the case of the Forward Chemical Company, working capital is $5,200,000, the difference between current assets of $6.5 million and $1.3 million. Why is that important? Because the lack of working capital is one of the principal reasons for failures of a business. Working capital measures the ability of a company to meet its obligations with ease, and its ability to expand its manufacturing as orders increase. Then the question arises as to how much working capital should a company have? That cannot be measured in dollars and cents, because a big company needs a large amount, and a smaller one, not so much, yet they may both be perfectly sound. So we measure it by using what is called the "CURRENT RATIO," which we get by dividing the current assets by the current liabilities. In this case, the answer is 5, so we say the current ratio is 5 to 1. For a chemical company, a ratio of 5 to 1 is very satisfactory, since the average current ratio of the more prominent chemical corporations of the country is about 4 to 1.

The best way of determining a proper current ratio for a company is to compare it with an average current ratio for other companies in the same industry. For instance, you will find that the tobacco industry has a high average current ratio, largely because of the large amount of inventory that that industry generally carries. On the other hand, the public utility industry, now in a period of large expansion, and which does not carry an inventory that is turned over two or three times a year, can operate with perfect soundness on a current ratio of 2 to 1, or even less. Nevertheless, a good rule-of-thumb is to say that a minimum current ratio should be 2 to 1. If it is less than that, there may be a perfectly valid reason, but such a situation deserves some investigation.

Lastly, we come to what is called "book value." This is a common guide used by some investors to measure a proper price for their stock, and it represents the equity of each share of common stock in the net assets of the company. In other words, it is what a stockholder would get, theoretically, if his company were to be liquidated. That may be good theory, but in actual practice, it is of real value only when applied to bonds or preferred stocks.

When you try to apply it to a common stock there are a number of things wrong with it, and the principal trouble is that sometimes a company that is even on the verge of bankruptcy can show a respectable book value for its common stock, as you will see when you look later on at the statement of the Backward Chemical Co. The book value for that common stock is $11.33, when actually the stock is hardly worth 10 cents a share. For that reason, book value alone is a poor criterion in selecting a stock. **Earning power** is a lot more valuable for a company to have—and you will note that the Backward Chemical Co. has no earning power worth mentioning.

Book Value of Common Stock

There is one way, though, wherein book value of a common stock is of some help, and that is when that value is compared over a period of several years. From that comparison you can tell whether the company is growing or is losing ground. But there are plenty of other ways of learning the same thing—so that I caution you not to pay too much attention to that overworked term — book value—as it pertains to market price of a common stock.

Now we come to the INCOME STATEMENT of the Forward Chemical Company. That is the smaller page that is clipped to the balance sheet that we have just been reviewing. Notice that this covers operations for the whole year ending Dec. 31, 1949.

I think most of the items on this statement should be quite clear. Item number 4 under costs and expenses, includes all taxes, such as real estate and social security, that are an EXPENSE of doing business. Income taxes come out later, when it is determined what the real income is. PROFIT FROM OPERATIONS, sometimes called gross profit, and shown here at $1.5 million, should not be confused with net profit or income available for dividends. We still must take out the interest that was paid to the bondholders, and the interest paid on the bank loan.

That leaves us with the figure of $1.4 million, and it is on that amount that income taxes are paid, at what was until recently the standard corporation rate of 38% to the Federal Government and at varying rates to the States.

Now we are left with $800,000 available for dividends, and it is right here that some misunderstandings arise. Because $800,000 is available for dividends, this does NOT mean that the whole $800,000 will be paid out to stockholders. Few companies are in such very fine financial shape that they consider it unnecessary to put back into the business a part of their annual earnings to finance further growth. In this particular instance, the company decided to pay out in dividends roughly 62% of their net income, or $500,000.

A 62% pay-out is well within the bounds of conservative practice. That leaves $300,000 to be put back into the business, and it is added to the EARNED SURPLUS item that we saw on the balance sheet.

Per Share Earnings

To make the picture of earnings a little more clear, we often reduce those earnings to so much per share. By simple arithmetic, we show here that Forward Chemical Company earned $1.60 per common share. You get that by dividing the number of shares (500,000) into the amount of money available for dividends ($800,000). They paid a dividend of $1.00 per share leaving 60 cents per share to go back to the company.

Now since that common stock has earned $1.60 per share, and paid a dividend of $1.00 per share, what would be a reasonable price at which that stock should sell? One rule-of-thumb is that, in normal times, a common stock should sell at about 10 times its earnings. If that were true, we would have this stock selling at $16 per share. But the difficulty of that rule is that it is pretty hard to determine just what is normal times. In 1929, which we know now was abnormal, many stocks were selling around 20 times earnings. And in June 1949, the low point of the stock market since early 1945, any number of stocks of first rate companies were selling at five times earnings. Many of them are still under 10 times earnings right now.

But let's assume the 10 times ratio here, and therefore a price of 16. Paying a dividend of $1.00 per share, that means a return on your money, or yield, if you bought it at 16, of 6.2%. If you compare that yield of 6.2% with the yields of other chemical companies of comparable size, you would find that the others are nearer 5 to 5½%. So 16 seems somewhat too low, and if it actually is selling at a price of 16, it perhaps is an attractive purchase. Because if it were selling about in line with other similar chemical companies—that is, to yield 5 or 5½—the price would be around $19 per share, based on the $1.00 dividend.

Right here, perhaps you are thinking: All right, fine, but how am I to know those average yields, or how am I to know that a current ratio of 5 to 1 is good for a chemical company? Of course, that is where the investment advice or service comes in. An investment dealer has all that information available for the asking. He also has on hand the past records of companies, and that past record is important. To examine the balance sheet and income statement that cover one year is a big step towards understanding the finances of a company, but to get a proper viewpoint, those figures should be compared with at least a few of the figures of one or two or three years ago. A prolonged strike, for instance, could make the one year earnings figures of a company look pretty dismal, yet basically that company might be very sound, with a fine back record of earnings, and a good future ahead of it.

Consistent earning power, by and large, as I said before, is the most important factor of all, and earnings of one year only may not give a true picture.

I am not going to review the statements of the Backward Chemical Company, but we hope that you will take them home with you and examine them when you have time. Compare them with the Forward Chemical Company and you will see very readily why the one company is moving forward and the other is very backward indeed.

FORWARD CHEMICAL COMPANY

INCOME STATEMENT

For the Year Ended December 31, 1949

Sales		$10,000,000
Costs and Expenses:		
1. Cost of raw materials	$7,000,000	
2. Selling and General Expenses	1,000,000	
3. Wear and Tear on Our Equipment (Depreciation)	200,000	
4. All Taxes Other Than Income	300,000	8,500,000
Profit From Operations		$1,500,000
Interest Charges Paid Out:		
To Our Bondholders	$70,000	
To Our Bank	30,000	100,000
Net Income Before Income Taxes		$1,400,000
Income Taxes		600,000
Net Income Available for Dividends		$800,000
Dividends ($1.00 Per Share on 500,000 Shares Common Stock)		500,000
Balance Left to Put Back Into the Business		$300,000
Earned Per Common Share		$1.60

BALANCE SHEET

As of December 31, 1949

ASSETS

Current Assets:		
Cash		$1,500,000
What Our Customers Owe Us (Accounts Receivable)		2,000,000
Inventories		3,000,000
Total Current Assets		$6,500,000
Fixed Assets:		
Property and Equipment	$4,000,000	
Less What We Have Put Aside for Depreciation	400,000	3,600,000
Goodwill		400,000
Total Assets		$10,500,000

LIABILITIES

Current Liabilities:	
What We Owe to Others (Accounts Payable)	$400,000
Accrued Taxes	600,000
Bank Loan Due in Six Months	300,000
Total Current Liabilities	$1,300,000
Mortgage Bonds (4%)	1,750,000
Capital Stock:	
500,000 Common Shares ($10 Par Value)	5,000,000
Surplus:	
Capital	500,000
Earned	1,950,000
Total Liabilities	$10,500,000
Working Capital (Current Assets Less Current Liabilities)	$5,200,000
Current Ratio (Current Assets Divided by Current Liabilities)	5 to 1
Book Value Per Common Share	$14.90

TO COMPUTE BOOK VALUE—*Add both surplus items to the par value of the stock, and divide by the number of shares.*

BACKWARD CHEMICAL COMPANY

INCOME STATEMENT

For the Year Ended December 31, 1948

Sales		$9,000,000
Costs and Expenses:		
1. Cost of raw materials	$7,000,000	
2. Selling and General Expenses	1,500,000	
3. Set Aside for Depreciation	150,000	
4. All Taxes Other Than Income	300,000	8,950,000
Profit From Operations		$50,000
Interest Charges Paid:		
To Our Bondholders	$20,000	
To Our Bank	20,000	40,000
Net Income Before Income Taxes		$10,000
Income Tax		400
Net Income Available for Dividends		$9,600
Dividends Paid		None
Balance Left to Put Back in the Business		$9,600
Earned Per Share		$0.03

BALANCE SHEET

As of December 31, 1948

ASSETS

Current Assets:		
Cash		$200,000
What Our Customers Owe Us (Accounts Receivable)		1,000,000
Inventories		3,000,000
Total Current Assets		$4,200,000
Fixed Assets:		
Property and Equipment	$4,000,000	
Less Depreciation	500,000	3,500,000
Goodwill		500,000
Total Assets		$8,200,000

LIABILITIES

Current Liabilities:	
What We Owe to Others (Accounts Payable)	$1,500,000
Accrued Taxes	1,300,000
Other Accrued Expenses	500,000
Bank Loan Due in Six Months	1,000,000
Total Current Liabilities	$4,300,000
Mortgage Bonds (4%)	500,000
Capital Stock:	
300,000 Common Shares ($10 Par Value)	3,000,000
Surplus:	
Capital	300,000
Earned	100,000
Total Liabilities	$8,200,000
Working Capital (Deficit)	$100,000
Current Ratio	—0—
Book Value Per Common Share	$11.33

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Inflation Should Be Stopped

that followed the French Revolution of 1789, due primarily to the inflation and blow-up of the value of the French assignats. Their value went down to zero. They were finally not worth the paper they were printed on.

We have had plenty of expensive inflationary experiences in this country. Following the Revolutionary War, the value of the Continental currency fell to nothing. We still use the expression about a thing that is valueless, "Not worth a Continental."

The Civil War was accompanied by an inflation, made worse by the issue of badly secured government greenbacks. The value of the dollar in that inflation went down to 35¢. That inflation ended with the crash of 1872. This was followed by one of the worst depressions we have ever had. It lasted for several years.

We had a sharp inflation that began during World War I, that reached its peak and broke in the summer of 1920. The disastrous effects can still be remembered by many of our older businessmen and especially by retailers who were caught with inflated priced inventories that had to be unloaded at a fraction of their costs.

Certainly most of you know of the fearful inflation that occurred in Germany and in Austria following World War I. The value of the money in those countries by 1923 went to zero. The middle classes, the best people of Central Europe, were wiped out. A great many starved to death. After that crisis came the Nazis, National Socialism, and Hitler. Out of this economic smash-up came the beginnings of World War II.

France and Italy are at present very weak. The facts can be seen in their monetary system. It takes 350 French francs to buy one of our 50¢ dollars. It takes over 625 Italian lire to buy an American dollar. These are symptoms of a decaying economy. Whenever the people have lost their savings, their hopes of gaining independence, of achieving some security for their old age and of helping their children to get a fair start in life, their morale disintegrates. For such people there is neither outlook nor future. This is, I have been informed, a widespread attitude in both France and Italy today. Many of the best people in those countries feel that there is nothing left to live for, much less to fight for.

We in this country are in an inflationary wave at the present time. In many respects it looks worse than any previous inflation that we have ever had.

The Characteristics of Inflation

We know, or should know, how an inflation starts. We know that the beginnings of an inflation are almost always pleasant. More money and higher prices mean that everybody, or nearly everybody, makes money, or thinks that he does, whether he earns it or not. As the wave progresses, some people begin to get hurt, especially those with fixed and limited incomes. But the movement goes, thoughtlessly, on. Then more and more people get hurt. Whole economic classes are wiped out. Finally, there comes the show-down, disaster to almost every one and especially to the economy as a whole. Rebuilding after the crash of an inflation, even when possible, is a long, painful and costly process in which every one suffers. At such times the enemies of a country pour in and take over. At such times the spirit of revolution is rife.

What Hedges, If Any, Can Be Set Up Against Inflation?

Is there anything that individual businessmen can do about inflation? Is there any safe hedge against inflation? Here are the alternatives:

(1) Paper money, government or private bonds, notes and mortgages, everything that bears the dollar sign, lose their value as the inflation progresses. Furthermore, when the inflation bursts, it is the common experience that notes, mortgages and similar obligations are generally defaulted. The losses are irrecoverable and irreparable. Hoarding paper money or bonds is no hedge at all.

(2) The purchase and ownership of land may seem to be a likely hedge. Farm and other forms of real estate, if productive, may prove a partial means of countering the effects of an inflation, provided the owner can provide competent management and maintenance. But both productive and unproductive real estate are in most parts of the country subject to high tax rates. The taxes as well as the losses that are common to land ownership may consume any gains that might otherwise accrue to land ownership during an inflation. There is no assurance in real estate holdings as against full scale inflation.

(3) The purchase of goods as a hedge against inflation is largely speculative. Nearly all goods are subject to deterioration. There are also the expenses of storage and insurance. In spite of all precautions, goods may be burned, bombed, stolen or destroyed. Only an expert market manipulator can hope to have any success with the purchase of goods as a means of discounting an inflation.

(4) Common stocks in gilt-edge, productive, profit making companies are frequently urged as a means of protection against inflation. In theory this is correct, but it must be remembered that the earnings, in even the best of corporations, are variable and, more important still, the government takes a larger and larger share of the profits in the form of taxes. The present corporation tax takes 45% of net profits. The economists of the CIO, who have close contacts with the Administration, are urging that corporation profits should be taxed 80%. Owners of corporation common stocks who have enjoyed continuous payments of dividends at the same rate per year since 1939, are actually only half as well off today as they were then. The government won't let you seek protection from inflation by putting your savings into common stocks.

(5) A good job in a good company may be a hedge. The record of industrial jobs to date is that they have kept impressively ahead of the inflation. But workmen having such jobs cannot retire. They must stay on as long as they live, or as long as they can hold them. Their savings won't do them much good and their pensions, if any, also suffer from inflation. A $100 a month pension today, for example, is worth only as much as a $50 a month pension in 1939.

This brings us to the general conclusion that there is, in fact, no real hedge for inflation. There is no way of hiding from it. There is no cyclone cellar to which an individual businessman or employee can retire and remain in safety when the inflation bursts as it always does, sooner, or later. *The only remedy for inflation is to stop it.*

Can an Inflation Be Stopped?

Yes, it can be stopped if you stop the things that cause it. The remedy for inflation is to attack and to destroy its causes. What are the causes of inflation? They are simple. They are well known. Just keep in mind that inflation is always due to too much money in relation to the amount of goods and services produced and available. Therefore, to stop an inflation it is necessary to turn off the spigots that produce money and turn on the energies that produce more goods and services that people want.

The Causes of Inflation

Here are some of the ways in which inflation comes into existence and becomes a menace:

(1) Whenever a government issues paper money, promises to pay, or bonds in excess of its income and operates on deficits, it is laying a greasy track for inflation. The longer the deficits run the greater the inflation. When the people lose their expectations or hopes that the government will ever repay these obligations, the bottom drops out and the value of the money goes to zero. This has happened in other countries. It happened after our Revolutionary war. It would be foolish to say that this can never happen here again.

(2) A more rapid extension of bank loans than justified by an actual increase in sound business productivity is a highly dynamic cause of inflation. Such loans mean increased dollars, speculation, and higher prices. Unless such loans are kept in check, the inflation moves inevitably on to its smash-up, just as it did in this country back in 1929-1930.

(3) The loose extension of credit by other loan agencies, whether for automobiles, television sets, household appliances, housing, or other goods, beyond safe assurances of full, proper and prompt repayments brings a lot of purchasing power into existence. When such money exceeds the productivity of the goods wanted, there is a highly potential cause of inflation. Such credit extends the volume of purchasing power in the same manner as the over-issue of paper money by the government.

(4) The reduction of interest rates makes it easier to borrow money and to spend it, and thus adds to the volume of dollars in pursuit of goods.

(5) Government subsidies of any and all kinds, including public funds spent for roads, post offices, hospitals, money to support farm prices, government purchases at higher than market prices, especially under cost-plus contracts that automatically raise prices, and so on. Such subsidies are a festering cause of inflation.

(6) Every increase in price paid by anyone, whether by the government, by a manufacturer or retailer, unaccompanied by improvements in qualities or increases in quantities of products is a highly important cause of inflation.

(7) Every increase in costs of any kind entering into the production of goods or services, unaccompanied by increases in productivity, since it tends to raise prices, is a top cause of inflation.

Inflation is usually the result of several causes. Several are at work at the present time, some only mildly, others at full tilt. In our present inflation the government has issued paper money. There was four times as much of such money in 1945 as there was in 1939. Since 1945 the government has been reasonably cautious in the issue of more paper money.

Under the Federal Reserve System the expansion of bank loans has been restricted somewhat and most banks are now exercising a healthy opposition to loans for speculative purposes.

Beginnings were made as of September in the control of credit by the Board of Governors of the Federal Reserve System. These controls have been rather mild. Eventually they are likely to tighten still further. Even credit retailers will, in the general interest, welcome these restrictions.

On the matter of interest rates, the interest paid by the government sets the patterns for all loans. These rates are abnormally low. They were set low back in the 1930's when the object was to stimulate inflation. They have continued low. They still stimulate inflation. To correct their inflationary effects they should be increased.

Our government has for many years had a program of paying subsidies of many kinds such as for housing, health, education, public works and farm-support prices. All of these contribute to inflation. Since the Korean outbreak and the passage of the Defense Production Act of 1950, there is the prospect of enormous increases in financial inducements to bring up the national military strength. Necessary as this may be to national defense, this must be reckoned as a continuing cause of inflation.

Increases in prices and costs, unaccompanied by increases in productivity, are today undoubtedly the greatest cause of increased inflation.

What Are the Costs that Stimulate Inflation?

Costs of production consist essentially of wages and salaries, raw materials, interest on capital and rents on property. The costs of raw materials are, however, also made up of wages, salaries, interest and rent. Thus, for the economy as a whole, the costs of production consist essentially of *wages, salaries, interest* and *rents.*

Profits are not included as costs for the reason that they are differentials earned by certain companies as a result of superior judgment, foresight, skill, competence or ability of its managers. The term "profit," as commonly used, is a misnomer.

Profit as the word is commonly used, usually includes what might more properly be called interest on capital invested. It includes the wages of management, payments for experiments, reserves to cover replacement costs and insurance to cover risks. Here, again, the elements are wages, salaries, interest and rent. After these costs have been covered then what is left is actually net profit. The profits reported by many concerns are made up entirely of costs and do not include a penny of real net profit. Real net profit is the differential that some companies earn, and most others do not.

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Securities Salesman's Corner

By JOHN DUTTON

Sometimes you may have heard salesmen say, "I told that story better than ever before in my life and the fellow just sat there and looked at me. He might as well have said, 'so what,' for all the good it accomplished." Occasionally we forget that before anyone will buy anything they must first **feel** a need for it. What will it accomplish if you tell a prospective buyer all of the merits of a particular security, unless he is first interested in making an investment? The following is a true story of how a salesman made a sale of sizable proportions just because he first found out what was of primary importance to his prospect.

This salesman and his prospect lived in the same block and they would see each other almost every day. Both men knew what the other did for a living, and in this instance the securities man was under the impression that some day his friend from down the street would ask him to take some orders for securities. However, several years went by and nothing of this kind happened. They just met, talked about various things, and went on their way as usual.

A study of this situation convinced the securities man that unless he found the right approach to his friend's confidence that the chances of doing business with him were very slight. He knew, however, that this was a case where there was ample money available for investment. Also his prospect had a large single interest in one company, evidenced by his holding a substantial block of stock which was listed on a national exchange. He also knew that he had always been careful never to discuss anyone's private affairs with him and was certain that he could gain sufficient confidence if he asked for a definite appointment to talk about securities. The next question he had to decide was where to have the appointment: at his friend's office, at his own office, or at his friend's home? He decided to try for the home, since he had the benefit of being nearby and in a manner it could be almost a neighborly call, although by arrangement and appointment.

He secured an evening appointment and he sat down with both this man and his wife and began to ask questions. He assured them of his confidence in everything said. He mentioned that the main reason for his call was to determine if he could assist them in preserving and building up their assets. He briefly mentioned the inflationary aspects of the present situation in this country, and he also spoke of the possibilities of an eventual decline in business and of deflation. He said he wanted to see if he could offer some suggestions that might help them build up some defenses against such future contingencies. Finally he came to this question, "What do you want your present holdings of securities and your other assets to do for you?" This opened up the floodgates and strange enough it was Mrs. Prospect who said, "I've been worried about our large investment in XYZ company for a long time, for that matter, so has Jim. I don't know, I just don't like it, having all those eggs in one basket. All we want out of life is to live as well for the rest of our days as we are doing now. We are not interested in leaving a big fortune to the children. For the time being everything is all right. Jim used to be connected with XYZ company as you know, his brother is now President, but they have had their ups and down. Don't you think we would be better off to sell part of our holdings and buy some other good securities in more than just one or two companies the way it is now?"

Within another hour there was a signed order for a good-sized block of a balanced mutual fund which was to replace the sale of part of the XYZ. When the main point of issue became apparent the sale just had to follow. Of course that was the time to offer the mutual fund, to explain its points of superiority, its diversification, management, balance, etc. That was the time when telling the story went straight home. After you find out what a man really wants out of life, if you will show him an easy way to obtain it, **he will buy.** You won't have to sell him.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

The sharp reactions all over the list last week showed the effects of minor selling on an otherwise thin market. Before you read any further, I want to say that I don't think this is the beginning of any major debacle. A reaction at this time is due to a series of forces, none of which I intend to enlarge upon here.

* * *

Last week I commented on the probability that the rails were about through making like the favorite sons. What I didn't take into consideration is that in present day markets no one group can go down—or up—without some effect on other groups.

* * *

Well, so they all went down and now there's gnashing of teeth and wailing and second guessing. Me, I too wish I could get a chance at second guessing at this stage. I know what they did. I wish I knew what they'll do.

* * *

According to Dow's theory we are still in a bull market. Stocks can go down considerably more before a bear market will have been signalled. Should they continue to go off, the industrials can go to 197 and the rails to 51 before any danger, according to Dow, would be in the offing. These figures, if reached, would mean a one-third retracement, which the Dow theory allows for.

* * *

I'm not pinning anything on this theory or giving it as a yardstick for anybody to follow. I know that if I waited for a confirmation either up or down, I'd have to buy them so close to the top, or sell them so close to the bottom, that margin clerks would have to engage in heavy correspondence with me.

* * *

You may recall that for the past few weeks I have not recommended specific issues by price. I did write flatteringly about the auto and utility stocks as groups, but left the choice and price up to the reader.

* * *

Old readers may have wondered at my caution. It wasn't caution so much as it was inability to get my teeth into any stock I had full faith in to give it a wholehearted recommendation.

* * *

As I write this the market is down. It probably will go down some more. But it is on sharp breaks that half-way decent buys can be made. It doesn't take any guts to get aboard when everybody else is fighting to do the same thing.

* * *

There's talk that the excess profits tax and similar stultifying taxes will be enacted by a Congress called into session ahead of time. If anybody believes that taxes will remain the same they're daydreaming. If taxes don't go up in the next few weeks, it'll be in the next few months. But that doesn't mean the end of the stock market.

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

New York "Times" Ups Sunday Issue Price Outside 50-Mile Radius

In an announcement made on Oct. 30, the New York "Times" stated that, because of increased costs, the price of its Sunday edition would be raised to 25 cents in the area outside a 50-mile radius of New York City, effective with the issue of Nov. 5. The 15-cent price within the metropolitan area remains unchanged, as does the price of the weekday edition.

Three With Sutro Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—Robert N. Bloch, C. Joseph Mitchell, and William Piper have been added to the staff of Sutro & Co., 407 Montgomery Street, members of the New York and San Francisco Stock Exchanges.

Continued from page 37

Inflation Should Be Stopped

There is no other way of making a net profit except by monopoly. But monopoly is unlawful, and we have ample legislation and prosecuting services under our present system to stop monopoly.

Wages Are the Most Important Factor in Costs

Among the costs, wages made up the largest part. Counting up the wages that go into the costs of goods from the production of the raw materials, to the final disposal of the goods to the consumers, they make up from 65% to 70% of the total price paid by the consumer. Incomes of individual proprietors, including farmers, dentists, attorneys and other professional people and small businesses that are unincorporated account for an additional 15% to 20% of the national income. These incomes are wages. This brings the total wage bill up to 85% or more of the total national income. Interest, dividends and rents with total profits thrown in, after taxes, amount to less than 15% of the total national income.

The amount paid out in wages, then, is not only very important to the individual concern that does the paying, but also to the entire economy. Whenever wages go up, unless accompanied by similar increases in productivity, the cost of production also goes up. Whenever the costs of production go up, prices also go up.

Wages and salaries should normally go up about as fast as the rate of productivity increases. When wages go up faster than the rate of productivity, the effect is a cause of inflation just as certain as an increase in the issue of printing-press government money, an increase in bank loans for speculative purposes, or an increase in credit for the purpose of buying luxuries.

When productivity goes up faster than costs, everybody benefits. More goods become available. Prices decline and standards of living rise.

When productivity does not keep up with rising costs, nearly everybody suffers. Eventually everybody is penalized. The effects fall at first most heavily upon those whose incomes are stationary or fixed. They fall with most serious effects upon those whose incomes are small. The only remedy for this evil of costs and wages rising more rapidly than productivity is to take steps to encourage productivity or to slow up wage increases until productivity catches up.

A Comparison of the Trends of Hourly Wage Rates and Man-Hour Productivity Since 1939

Now let us see what the trends have been during the past ten years in hourly wage rates and man-hour productivity.

Trends in Retail Prices, Average Hourly Factory Wages and Average Output Per Factory Man-Hour 1939-1950

Year:	Index Retail Prices 1935-1939=100	Average Factory Wages Per Hour	Index Hourly Factory Wages 1939=100	Index Factory Output Per Man-Hour 1939=100	Index Factory Unit Labor Cost 1939=100
1939	99.4	$0.633	100.0	100.0	100.0
1940	100.2	.661	104.4	106.3	97.5
1941	105.2	.729	115.2	*107.6	*103.1
1942	116.5	.853	134.8	*102.5	*121.5
April	117.0	.819	129.4	----	----
October	119.0	.957	151.2	----	----
1943	123.6	.961	151.8	*98.7	*139.0
1944	125.5	1.019	161.0	*99.2	*147.5
1945	128.4	1.023	161.6	*101.3	*150.4
1946	139.3	1.084	171.3	102.5	167.3
1947	159.2	1.221	192.9	106.3	183.7
1948	171.2	1.350	213.2	110.1	193.4
1949	169.1	1.401	221.3	†114.7	†193.3
1950:					
June	170.2	1.454	229.7		
July	172.5	1.462	231.0		
August	173.0	1.463	231.1		

*Index numbers for war years compiled from certain industries only. Figures for remaining industries not comparable because engaged in war production.

†Index compiled for first three quarters of 1949.

Source: All figures are based on statistics compiled by the U. S. Bureau of Labor Statistics. Indexes of factory output per man-hour and factory unit labor costs were compiled by the National Industrial Conference Board.

Factory wages in 1939 averaged 64.3¢ per hour. In August, 1950, they averaged $1.463 per hour. This was an increase of 131.1%. The average for 1949 amounted to $1.401 per hour, or an increase of 121.3%. Up to the end of the third quarter of 1949 the index of factory output per man-hour had risen 14.7% above 1939 and the index of factory unit labor cost had increased 93.3%.

In the meantime, the output per man-hour in the manufacturing industries increased 14.7%. Note that factory hourly wages increased 131.1% and factory output per man-hour increased 14.7%.

Factory wage rate trends seem to be fairly typical of all wage rate movements during the past 10 years. Increases in retail wage rates, for example, seem to have been about the same. They have more than doubled since 1939. The wage rates of transportation workers, miners and lumbermen have gone up at about the same rate. Farm wage rates have gone up from 2½ to 3 times as much as they were in 1939. Therefore, the use of the index of factory hourly wage rates may be considered as fairly representative.

What has been the effect of the wide disparity between wage increases and man-hour output since 1939? There can be but one answer. The answer is very clear. Costs have gone up and as a consequence prices have increased. The cost increases have been 85% or more wage increases, unaccompanied by similar increases in man-hour productivity. Up to August, 1950, factory wage rates went up 131.1% Prices of goods not controlled have also gone up 100% or more. Increases in costs of production, especially wage rates, without comparable increases in productivity are the causes; the increases in prices are the effects. The effect has been precisely what one might expect. Increases in wage rates, since they are the most important factor in the costs of production, constitute the main cause of our present inflation. Such wage increases are the main threat to the future not only of the value of the dollar, but the future of our whole economy.

The wage earners whose money wages have more than doubled in the past 10 years have not profited as much from their wage drives as they thought they would. The average worker's take-home weekly pay at present is nearly 2½ times what it was in 1939, but in real purchasing power, because of the increases in the prices of goods, due to increases in costs of production, be it always remembered, without parallel increases in the rates of productivity, is only about 25% higher now than it was in 1939. They are getting more than twice as many dollars for the same amount of work, but their dollars buy only half as much.

A pension of $100 per month now buys only $50 worth of goods as compared to what it would buy in 1939. The last Congress increased social security old age insurance payments by 77½%. Even so, the new total amounts received by beneficiaries are worth less than they were in 1939 without the 77% increase.

A great many wage earners, as well as other citizens of this country, bought government bonds during the war. In 1942, they paid $75 for a bond that in 1952 will repay them $100. That return of $100 is worth nearly $25 less in actual purchasing power than the amount paid for the bond in 1942. How long do you think this government can continue to sell savings bonds to the public at par if and when it becomes known that the purchasers after 10 years get less than they paid for them?

This country now has a very high national income as measured by dollars. The national income in dollars is higher than it has ever been before. This income is widely distributed. The median average income of all of the families and individuals in the United States is about $3,200 per year in 1949 dollars. This means that half of all families and individuals are getting more than $3,200 per year. It also means that the other half is getting less than $3,200 per year.

About 17% of all the families and individuals in this country, as of 1949, had incomes of less than $1,000 a year. A full third of all the families in the country had incomes of less than $2,000 per year. It is these families and individuals who have suffered and are now suffering most from the present inflation. Bear in mind that the 17% of all income receivers who got less than $1,000 per year can only buy one-half as much goods with this amount now as they could in 1939. Do not lose sight of the fact that the 34% who get less than $2,000 per year likewise can only buy half as much with this amount now as in 1939. As wages and other costs of production go up and prices go higher, their condition will presumably grow steadily worse.

There are many others who have been hurt by this inflation. There are many fine American families and individuals who by thrift and good management of otherwise modest incomes were able, in past years, to support comfortable or even moderately well-to-do standards of living; who laid by savings for sickness and old age, who exercised thrift in their own lives so that they could give to their children a good education and an independent start in life. These were the people who could always be counted on to help support the churches and charities in their communities. Now, because prices of the necessaries of life have doubled during the past 10 years, these people have been cut down to very restricted standards of living. Many are in actual penury. It is these, together with the lower income families and individuals of this country, making up more than one-third of the entire population, who are taking the worst of the rap from the current inflation.

One wonders what the leaders of organized labor, or even their members, who incessantly drive for higher wage rates, but who do nothing about increasing the rates of productivity, think about these results. It is not to be expected that they may give much thought to the once thrifty, substantial, well-to-do people of this country who have been pulled down by the inflation.

Socialist doctrines have in recent years so permeated the minds of labor leaders and, indeed, so many of the actual workers, that any one having a good income or possessing any property is classed as a plutocrat, an exploiter, a fascist, or an "enemy of labor." Anything that cuts down such people is usually greeted with gloating joy. It would be foolish to expect any consideration in 1950 for middle-class Americans who may have been weakened or ruined by the inflation, in spite of the fact that most of the early strength of the early labor union movement came from just these people.

It is even probably too much to expect any thought for the lowest income groups, the third of our population, whose pitiful purchasing power has been cut in half by the wage trends of the last 10 years, except, of course, to loudly blame some one else and to urge more public relief and more taxes to support the relief.

But how about some thought to the effect of these wage policies on the future of organized labor itself? How long do the labor leaders think they are going to continue to get something for nothing? That is a question that may be fairly asked. It assumes no suggestion that the leaders of labor should surrender any selfishness. It simply is a question on how long these trends can continue before the bubble bursts.

It would be worth while to consider just what has happened already to the families of the laborers who have run their wage rates up so far in advance of their rates of productivity. Let us look at some of the prices that they and their families have to pay for ordinary purchases. Has any one within the ranks of labor actually figured out how these prices came to be?

The newspaper that formerly cost 2¢, is now 5¢.

The candy bar is still 5¢, but it weighs less than half what it did in 1939. By January, 1951, I have heard, there will be no 5¢ candy bars. They will all be 10c and will weigh almost as much as they did back in 1939 when they were real 5¢ goods.

White Owl or Phillies cigars used to be 5¢ each. They are now 10¢ each.

A hot chocolate formerly cost 5¢. It is now 15¢.

A bottle of beer of any well-known brand could formerly be bought for 15¢. It now costs from 25¢ to 30¢.

A pack of Edgeworth smoking tobacco formerly sold for 10¢. It is now 15c and the weight has been cut from 2 ozs. to 1½ ozs.

A paper of pins formerly cost 5¢. It is now 10¢.

A pair of overalls of a very well-known brand could be bought in 1939 for $1.19. It is now $2.98.

A good chambray work shirt in 1939 could be bought for 49¢. It is now $1.29.

A pair of men's shoes of a very well known brand used to be $3.30. They are now selling for $7.45 a pair.

A pair of Fruit of the Loom shorts in 1939 sold for 30¢. They are now 79¢.

A white broadcloth men's shirt such as was formerly sold for Sunday wear could be bought in 1939 for $2.50. Such shirts are now $4.95 and more.

A standard Cannon sheet, 81 x 99 count, sold at 94¢ in 1939. Its price is now $2.69.

27" Birdseye diapers that were 49¢ a dozen in 1939 are now $2.69 a dozen.

A 9' x 12' all-wool Axminster rug that could be purchased for $29.95 in 1939 now costs $65.

A 10-qt. galvanized pail that cost 29¢ in 1939 is now 79¢.

A Chatham 25% wool blanket, 72" x 84", with satin binding, which in 1939 was $3.98 is now $7.98.

Anthracite coal or coke for household use that used to cost $11, is now $21.95 a ton.

Hundreds of other items, all of common use, could be named. All of them cost the consumer twice or more times as much now as in 1939. Analyze the reasons for the increases back through the processes of manufacture and production of raw materials and you will find that 75% to 85% of the entire increase in prices is due to increased labor costs.

Just what is the percentage that wage earners get out of this inflation? Isn't it about time that labor economists and leaders gave some thought as to where their leadership is taking this country? Isn't it about time the working men and women of this country wake up and tell their leaders that they are sick and tired of chasing a rainbow that isn't there, that it is neither sound nor right to try to get something for nothing and that the way to increase real earnings is to bring up man-hour productivity to the level of hourly wage rates?

The economists of this country all admit that we face the menace of more inflation, but some of them try to sugar-coat the outlook by saying that the inflation will be "moderate." They call it "creeping inflation." Just what is a "moderate inflation"? All of you, all of the American people have lost 50% of the value of their dollars in the last 10 years. Does a moderate inflation mean that in 10 years more you will lose the remaining 50%? At the rate that inflation is "creeping" now, it could be lost in five years.

At the outset I stated that this address would not be a forecast. It is merely a statement of $2 + 2 = 4$. If this inflation is not stopped the economy of this country will, just as sure as fate, go the way that Germany and Austria went back in the 1920's, or the way France and Italy have gone since the 1930's. Whether it will be stopped, or not, I do not know. I can only express a hope that it will be stopped. I am sure that it can be stopped. It will be stopped, but only if the people of this country, business, labor and agriculture, will make it stop. Organized labor has shown no sign of any intention, so far, to stop it. I am not even sure that all businessmen want it stopped. Playing with more and more dollars is exciting fun. Playing with inflation is almost as smart as rocking a boat full of kids out on a Sunday School picnic.

The remedy for inflation is simple, but it is harsh. The remedy is to stop its causes. Stopping an inflation is partly an individual problem. The responsibility rests heavily upon all. In my opinion the responsibility begins with businessmen, farmers, professional men and workers. The first step is to elect and keep men in Congress who will see that the government performs its part of this responsibility. The need for action is now.

A Course of Action Will Stop the Inflation

On Sept. 28, the Board of Directors of the National Dry Goods Association drew up a program urging all retailers to accept their full share of responsibility for the current inflationary trend and urging them to avoid all acts which could cause further inflation. The positions take are all sound. The thinking is excellent. I am happy to agree with and to repeat them. The steps are as follows:

(1) Oppose all unjustifiable cost increases in retail store operation.

(2) Resist unwarranted price increases in purchases of merchandise and supplies from any or all resources.

(3) Insist upon delivery of all confirmed and accepted orders at prices agreed upon when such orders were placed.

(4) Insist upon the naming of firm prices when merchandise orders are placed and refuse to go along with blank-check buying.

(5) Avoid all statements in advertising which may prompt consumers to buy more merchandise than they need.

These five propositions complete the published statements of the NRDGA. To these I would like to add a few more on my own.

(6) Steps have already been taken for a further extension of credit controls beyond Regulation W, established Sept. 8. The new controls becoming effective Oct. 12 are known as Regulation X, covering purchases of housing. These controls are effective and necessary. They release materials for defense production and they reduce consumer spending. This is necessary until production catches up with wage rates. Credit controls may need further tightening. The Board of Governors of the Federal Reserve System should be commended and encouraged by retailers as well as by others for taking these steps and for laying down reasonable controls so long as the present difficulty with Russia continues.

(7) Price controls seem imminent. Businessmen and all other citizens should insist on wage ceilings, not merely stabilization, at the same time. Let us not have a repetition of what happened in 1942 when price controls, including a roll-back, went into effect in April, but wages were not put under any controls until six months later. In the meantime, while prices were being controlled, wage rates increased 17%. That was an unfair and tricky discrimination which has never been corrected. It should not be forgotten. Price and wage controls do not work perfectly. We would be better off in the long run without them, but the one without the other would not only be unfair, but unsound and even dishonest.

(8) There must be increases in taxation. The government needs more money and the collection of taxes will restrain private spending. But increases in taxation should be accompanied by sharp reductions in government spending for all civilian purposes. You don't stop inflation by reducing your own spendings and by turning your money over to the government which, in turn, spends like a drunken sailor.

(9) There are bound to be increases in income taxes and there will undoubtedly be some form of excess profits taxes. The increases in income taxes are inevitable. Through such taxes the costs of government should be shared by all. It is not possible to agree so readily to the proposals for excess profits taxes. All corporation taxes constitute a double tax upon stockholders.

There is, however, the possibility of an excess profits, or rather an excess income tax which has not yet been tried, but which seems to have merit and deserves to be considered. Let the government collect every penny of all increases in net incomes of all kinds that have come into existence or accrued since June 25, 1950. There should, of course, be some exceptions, such, for example, as increases in wages due to increased rates of productivity, and increased profits in fair proportions due to increased extensions of plant or equipment. All other incomes, as they were up to June 25, would continue to be subject to the usual normal rates of taxes, but the increases in income since that date, that is, all increases resulting from the war in Korea, windfalls not ascribable to normal conditions, but which might be described solely as a result of "an act of Stalin," should be collected by the government and gladly paid over by their recipients for the support of the defense of this country until Stalin has been put in his place. I realize that this proposal may not have much political appeal in some quarters, but I submit it for your consideration.

(10) This country faces the need for substantial increases in military preparation. There seems to be no other way in which to save ourselves and others from the controls of totalitarianism. In extending our military provisions we must make sure, however, that we do not pave the way for permanent central controls over our economy. Every move taken by this government during this period of emergency to strengthen national defenses deserves our utmost support, but every move should also be watched by every citizen to make sure that when the emergency has been passed it may be possible again to resume our full individual liberties and our ordinary way of life with as little additional governmental restriction and control as possible.

(11) In the next session of Congress the effort should be begun, even if it cannot be completed, to repeal the Wage and Hour Act. This Act contains provision for a minimum wage which has been used as a lever or engine in raising all wage rates throughout the entire national structure without relation to productivity. The present minimum wage rate of 75¢ gives legal, even if absolutely uneconomic justification for every higher wage rate demanded by labor at the present time. If a poor, untrained, unskilled, least desirable, marginal worker must be paid 75¢ per hour, then an employee who is twice as productive, and there are millions who are, is worth $1.50 per hour. The logic of the minimum wage goes up through the entire wage structure.

An increase of the minimum wage rate to $1 per hour, as proposed by the CIO, would justify another 33⅓% increase in wage rates throughout the entire wage structure. While such increases bear no relation to productivity, they affect all wage rates because of differences in workers. The effects of the minimum wage have been insidious and almost wholly harmful.

Similarly, the limitation of hours of work to 40 per week, with a penalty overtime rate of time-and-a-half for overtime is thoroughly bad, particularly at such a time as this. This provision was passed by a Congress that wanted to spread work. There were then over 10,000,000 unemployed. It was believed that shortening the hours of work for all would increase the number of jobs.

This provision placed a serious restriction upon the most important resource this nation possesses, the labor power of its people. This restriction cost the people of this country several billions of dollars for overtime during World War II. It will cost the people of this country many added billions of dollars in the years ahead unless steps are taken, and soon, to repeal this unsound provision.

It is a pleasure to note that one of the most powerful employer groups in this country, the American Mining Congress, the nation's leading mining association, took a position on Aug. 30, demanding that Congress abolish the 40-hour work week. In an address that followed the passage of this resolution, Congressman Graham A. Barden, of North Carolina, who is Chairman of the Labor Committee of the House of Representatives, warmly praised the resolution. Both the American Mining Congress and Congressman Barden deserve the deep appreciation of all American citizens for pioneering this stand. This limitation on the hours of work should be wiped out. It has been a costly mistake. It is even to be seriously doubted whether man-hour productivity will ever again catch up with the trend of hourly wage rates unless both the minimum wage and maximum hour restrictions can be neutralized. This calls for the outright repeal of this foolish law.

(12) This country grew, prospered and became powerful in the faith, dignity and responsibility of every individual for carrying his own load, for producing enough for himself and his dependents without asking for or expecting others to carry this load for him. Short hours, frequent holidays, strikes, slowdowns, early retirement and other forms of loafing have never added anything to the economic structure of any country. They were not a part of the economic foundations of this country. They do not now contribute any strength to our people or to our nation. Neither do they add anything to the self-respect and satisfactions of life of any individual. Our national philosophy should be to develop self-reliance, to continue to secure greater production, to earn better wages in return for greater productivity, to secure lower rather than higher prices, and to earn a better standard of living not for just a few, but for all.

This presentation has been serious, but it would be a gross error to assume that it is pessimistic. It is my considered opinion that this inflation can be stopped. Therefore, this and every other discussion of the subject leads simply to a clear call for much-needed action. During the past few years this country has lost ground. We may lose more. But the ground can be recovered. But to do so it is first necessary to make up our minds. In doing so we will find that there are millions of other people, not only in business and agriculture, but also in the ranks of labor, even organized labor, who are doing the same thing. Many of them are mad enough right now, at the way things are going, to take off their coats and to fight the causes of inflation. The mathematical probabilities are opposed to a continued inflation and on the side of what is in the public interest. It is unthinkable that the majority of the citizens of this nation are going to take the current trend towards more and more inflation lying down and doing nothing about it. It is unthinkable that those who are trying foolishly, unwillingly or intentionally to smash our monetary system are going to get away with it. It is the solid citizenry of the country, its business people, its tradesmen, its farmers, its professional people and its bona fide workers; all, in fact, who know that they can't get something for nothing, who can and will stop it.

Louis McClure Opens

TAMPA, Fla.—Louis C. McClure has opened offices at 236-308 Tampa Street Building to engage in a securities business. Mr. McClure was formerly local Manager for Wm. S. Beeken Co.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available. Dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date:

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Nov. 5	102.4	102.6	101.2	8.8
Equivalent to—					
Steel ingots and castings (net tons)	Nov. 5	1,975,000	1,978,900	1,951,900	162,000
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output — daily average (bbls. of 42 gallons each)	Oct. 21	5,902,200	5,861,750	5,894,050	5,072,100
Crude runs to stills — daily average (bbls.)	Oct. 21	¶6,078,000	6,124,000	5,982,000	5,375,000
Gasoline output (bbls.)	Oct. 21	20,299,000	20,090,000	19,726,000	18,446,000
Kerosene output (bbls.)	Oct. 21	2,276,000	2,366,000	2,355,000	2,030,000
Gas, oil, and distillate fuel oil output (bbls.)	Oct. 21	8,283,000	8,874,000	7,816,000	6,856,000
Residual fuel oil output (bbls.)	Oct. 21	8,690,000	8,426,000	8,356,000	7,609,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Oct. 21	105,670,000	103,807,000	104,739,000	102,990,000
Kerosene (bbls.) at	Oct. 21	28,612,000	28,555,000	27,632,000	28,340,000
Gas, oil, and distillate fuel oil (bbls.) at	Oct. 21	82,846,000	80,959,000	75,079,000	89,030,000
Residual fuel oil (bbls.) at	Oct. 21	44,011,000	42,826,000	42,319,000	69,673,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Oct. 21	890,990	888,559	870,196	589,088
Revenue freight received from connections (number of cars)	Oct. 21	726,423	727,383	725,840	513,998
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Oct. 26	$245,105,000	$260,750,000	$244,811,000	$135,843,000
Private construction	Oct. 26	147,755,000	183,265,000	130,015,000	72,662,000
Public construction	Oct. 26	97,350,000	77,485,000	114,796,000	63,181,000
State and municipal	Oct. 26	80,135,000	72,659,000	104,382,000	55,487,000
Federal	Oct. 26	17,215,000	4,826,000	10,414,000	7,694,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Oct. 21	11,750,000	11,500,000	11,410,000	2,471,000
Pennsylvania anthracite (tons)	Oct. 21	984,000	1,081,000	956,000	1,231,000
Beehive coke (tons)	Oct. 21	146,500	*142,100	126,600	2,400
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Oct. 21	305	322	322	296
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Oct. 28	6,562,518	6,502,540	6,503,008	5,432,753
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET INC.	Oct. 26	160	165	148	221
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Oct. 24	3.837c	3.837c	3.837c	3.705c
Pig iron (per gross ton)	Oct. 24	$49.36	$49.36	$48.80	$45.88
Scrap steel (per gross ton)	Oct. 24	$40.67	$40.67	$40.67	$25.58
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Oct. 25	24.200c	24.200c	22.600c	17.325c
Export refinery at	Oct. 25	24.425c	24.425c	24.425c	17.550c
Straits tin (New York) at	Oct. 25	118.750c	113.250c	104.000c	95.000c
Lead (New York) at	Oct. 25	16.000c	16.000c	16.000c	13.000c
Lead (St. Louis) at	Oct. 25	15.800c	15.800c	15.800c	12.800c
Zinc (East St. Louis) at	Oct. 25	17.500c	17.500c	17.500c	9.250c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Oct. 31	101.43	101.49	101.69	103.95
Average corporate	Oct. 31	115.24	115.24	115.43	115.04
Aaa	Oct. 31	119.41	119.41	[illegible]	[illegible]
Aa	Oct. 31	118.40	118.40	118.60	119.00
A	Oct. 31	114.66	114.66	[illegible]	[illegible]
Baa	Oct. 31	108.88	109.06	109.06	106.56
Railroad Group	Oct. 31	111.25	111.25	111.62	103.42
Public Utilities Group	Oct. 31	115.63	115.82	116.02	116.61
Industrials Group	Oct. 31	119.00	119.00	119.00	119.20
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Oct. 31	2.39	2.39	2.37	2.21
Average corporate	Oct. 31	2.89	2.89	2.88	2.90
Aaa	Oct. 31	2.68	2.68	2.67	2.61
Aa	Oct. 31	2.73	2.73	2.72	2.70
A	Oct. 31	2.92	2.92	2.89	2.94
Baa	Oct. 31	3.23	3.22	3.22	3.36
Railroad Group	Oct. 31	3.10	3.10	3.08	3.20
Public Utilities Group	Oct. 31	2.87	2.86	2.85	2.82
Industrials Group	Oct. 31	2.70	2.70	2.70	2.69
MOODY'S COMMODITY INDEX	Oct. 31	472,4	467.1	461.0	339.0
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Oct. 21	196,950	231,419	219,191	195,662
Production (tons)	Oct. 21	235,388	237,498	229,731	206,400
Percentage of activity	Oct. 21	101	102	101	94
Unfilled orders (tons) at	Oct. 21	715,451	752,556	700,166	411,834
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Oct. 27	138.2	137.5	137.0	126.0
STOCK TRANSACTIONS FOR THE ODD-LOT ACCOUNT OF ODD-LOT DEALERS AND SPECIALISTS ON THE N. Y. STOCK EXCHANGE—SECURITIES EXCHANGE COMMISSION:					
Odd-lot sales by dealers (customers' purchases)—					
Number of orders	Oct. 14	29,404	39,129	30,825	19,568
Number of shares—Customers' total sales	Oct. 14	892,150	1,182,139	946,453	584,233
Dollar value	Oct. 14	$38,308,776	$52,921,967	$42,115,213	$21,872,404
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Oct. 14	31,155	42,548	35,401	22,421
Customers' short sales	Oct. 14	226	314	451	164
Customers' other sales	Oct. 14	30,929	42,234	34,950	22,257
Number of shares—Customers' total sales	Oct. 14	889,993	1,233,440	1,024,499	628,292
Customers' short sales	Oct. 14	8,457	12,011	16,032	6,069
Customers' other sales	Oct. 14	881,536	1,221,429	1,008,467	622,223
Dollar value	Oct. 14	$34,568,564	$48,142,457	$39,598,731	$20,844,394
Round-lot sales by dealers—					
Number of shares—Total sales	Oct. 14	309,460	396,460	344,910	217,780
Short sales	Oct. 14	------	------	------	------
Other sales	Oct. 14	309,460	396,460	344,910	217,780
Round-lot purchases by dealers—					
Number of shares	Oct. 14	278,440	379,880	293,560	190,790
WHOLESALE PRICES NEW SERIES — U. S. DEPT. OF LABOR—1926=100:					
All commodities	Oct. 24	168.9	168.7	169.4	152.4
Farm products	Oct. 24	178.7	177.9	180.2	158.1
Grains	Oct. 24	163.6	163.0	165.3	153.9
Livestock	Oct. 24	225.6	223.8	233.5	198.7
Foods	Oct. 24	174.0	173.9	177.4	160.8
Meats	Oct. 24	242.4	240.9	257.5	223.5
All commodities other than farm and foods	Oct. 24	160.9	*160.8	159.4	145.0
Textile products	Oct. 24	162.4	162.2	161.9	138.0
Fuel and lighting materials	Oct. 24	135.5	135.4	134.9	130.7
Metals and metal products	Oct. 24	178.0	177.8	176.4	167.1
Building materials	Oct. 24	220.4	*221.4	221.3	138.9
Chemicals and allied products	Oct. 24	131.9	131.6	129.2	115.5

*Revised figure. ¶Includes 464,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
AMERICAN TRUCKING ASSOCIATION— Month of August:			
Number of motor carriers reporting	295	*295	*295
Volume of freight transported (tons)	4,813,162	*4,019,647	3,544,167
BUILDING CONSTRUCTION PERMIT VALUATION IN URBAN AREAS OF THE U. S. —U. S. DEPT. OF LABOR — Month of August (000's omitted):			
All building construction	$1,081,362	*$1,060,627	$689,310
New residential	644,761	*640,176	385,254
New nonresidential	322,312	*308,622	211,608
Additions, alterations, etc.	114,289	*111,829	92,446
COTTON AND LINTERS — DEPT. OF COMMERCE—RUNNING BALES:			
Lint—Consumed month of September	968,484	807,840	708,623
In consuming establishments as of Sept. 30	1,237,815	1,144,250	745,482
In public storage as of Sept. 30	4,890,637	4,568,889	6,134,018
Linters—Consumed month of September	123,985	149,279	142,093
In consuming establishments as of Sept. 30	155,785	151,425	222,064
In public storage as of Sept. 30	109,385	137,119	49,027
Cotton spindles active as of Sept. 30	20,609,000	20,540,000	19,976,000
COTTON GINNING (DEPT. OF COMMERCE):			
Running bales (exclusive of linters) prior to October 18	4,839,486	------	7,598,405
COTTON SPINNING (DEPT. OF COMMERCE):			
Spinning spindles in place on Sept. 30	23,070,000	23,031,000	23,425,000
Spinning spindles active on Sept. 30	20,609,000	20,540,000	19,975,000
Active spindle hours (000's omitted) Sept.	11,860,000	9,711,000	8,725,000
Active spindle hours per spindle in place Sept.	515.9	516.7	396
DEPARTMENT STORE SALES—SECOND FEDERAL RESERVE DISTRICT, FEDERAL RESERVE BANK OF N. Y. — 1935-1939 AVERAGE=100—Month of September:			
Sales (average monthly), unadjusted	262	214	*242
Sales (average daily) unadjusted	267	202	*247
Sales (average daily) seasonally adjusted	262	277	*242
Stocks, unadjusted	256	226	*277
Stocks, seasonally adjusted	243	226	*215
EMPLOYMENT AND PAYROLLS—U. S. DEPT. OF LABOR—REVISED SERIES—Month of August:			
All manufacturing (production workers)	12,789,000	*12,148,000	11,561,000
Durable goods	6,892,000	*6,597,000	5,948,000
Nondurable goods	5,897,000	*5,551,000	5,613,000
Employment indexes—			
All manufacturing	156.1	*148.3	141.1
Payroll indexes—			
All manufacturing	394.0	*367.4	323.6
Estimated number of employees in manufacturing industries—			
All manufacturing	15,444,000	*14,771,000	14,114,000
Durable goods	8,292,000	7,976,000	7,302,000
Nondurable goods	7,152,000	*6,795,000	6,812,000
FABRICATED STRUCTURAL STEEL (AMERICAN INSTITUTE OF STEEL CONSTRUCTION)—Month of September:			
Contracts closed (tonnage)—estimated	249,315	*259,015	120,573
Shipments (tonnage)—estimated	155,960	*180,244	162,139
INTERSTATE COMMERCE COMMISSION—			
Index of Railway Employment at middle of September (1935-39 average=100)	122.7	122.0	111.5
LIFE INSURANCE PURCHASES — INSTITUTE OF LIFE INSURANCE — Month of Sept.: (000's omitted)—			
Ordinary	$1,447,000	$1,785,000	$1,095,000
Industrial	391,000	393,000	384,000
Group	546,000	341,000	239,000
Total	$2,384,000	$2,519,000	$1,718,000
MOTOR VEHICLE FACTORY SALES FROM PLANTS IN U. S. (AUTOMOBILE MANUFACTURERS' ASSOC.)—Month of Sept.:			
Total number of vehicles	722,812	818,092	*626,743
Number of passenger cars	616,827	682,782	*534,861
Number of motor trucks	105,562	134,853	*91,584
Number of motor coaches	423	457	*298
NEW CAPITAL ISSUES IN GREAT BRITAIN—MIDLAND BANK, LTD.—Month of Sept.	£7,825,000	£9,418,000	£4,267,000
NEW YORK STOCK EXCHANGE—As of Sept. 30 (000's omitted):			
Member firms carrying margin accounts—			
Total of customers' net debit balances	$1,284,016	$1,230,515	$739,838
Credit extended to customers	122,232	126,455	73,265
Cash on hand and in banks in U. S.	338,655	340,951	300,575
Total of customers' free credit balances	737,698	708,220	580,028
Market value of listed shares	88,673,390	85,053,070	70,699,878
Market value of listed bonds	118,860,724	125,256,745	132,210,287
Member borrowings on U. S. Govt. issues	204,162	178,352	142,806
Member borrowings on other collateral	678,754	663,647	429,873
REAL ESTATE FINANCING IN NONFARM AREAS OF U. S. — FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION —Month of August (000's omitted):			
Savings and Loan associations	$579,725	$489,745	$345,749
Insurance companies	158,327	142,517	90,068
Banks and Trust companies	349,014	302,001	220,271
Mutual Savings banks	112,357	100,379	67,231
Individuals	212,982	193,878	123,642
Miscellaneous lending institutions	272,508	242,292	171,852
Total	$1,624,913	$1,470,812	$1,068,813
SELECTED INCOME ITEMS OF U. S. CLASS I RYS. (Interstate Commerce Commission) —Month of July:			
Net railway operating income	$83,910,336	$90,046,715	$50,188,739
Other income	16,702,028	22,625,242	17,568,106
Total income	100,612,364	112,671,957	67,756,845
Miscellaneous deductions from income	3,635,424	3,893,041	2,482,762
Income available for fixed charges	96,976,940	108,778,916	65,274,083
Income after fixed charges	61,698,249	75,237,257	30,199,852
Other deductions	3,076,927	3,187,621	3,507,934
Net income	58,621,322	72,049,636	26,691,918
Depreciation (way & structures & equip.)	35,795,827	35,725,621	34,030,845
Amortization of defense projects	1,354,249	1,372,254	1,372,672
Federal income taxes	44,452,255	34,360,843	17,744,132
Dividend appropriations:			
On common stock	4,710,068	13,276,309	3,996,045
On preferred stock	5,552,444	1,464,695	6,139,277
Ratio of income to fixed charges	2.75	3.24	1.86
TREASURY MARKET TRANSACTIONS IN DIRECT AND GUARANTEED SECURITIES OF U. S. A.—Month of September:			
Net sales	------	$2,000,000	------
Net purchases	$5,017,500	------	$4,572,750

*Revised.

Continued from page 5

"Where Do I Go To Invest My Dollars?"

they offer the living trust, which can be directed to include common stocks, and may be given discretion to make transactions, either in whole or in part. These funds may or may not be commingled in the bank's common trust fund, the advantage there being more constant and authoritative supervision and diversification of issues in lieu of concentrating in the safe bonds. There is no minimum if it is a legitimate trust. The charges are set by law reasonably on a sliding scale.

The advantages of the above-mentioned trust services are the managers' experience, collective knowledge, composite experience; their impartiality should family disputes arise; and their financial responsibility under government supervision; and their remuneration by fixed fee and not geared to the number or kind of transactions for the customer, as in the case of brokers and dealers.

Disadvantages of such fiduciary services include:—their over-conservatism, reducing yield from riskless securities, because of fear of their own liability—moral as well as legal—should there be capital losses. This inhibition also applies to their choice of common stocks, which I would call the "window dressing" evil, forced by the public on anyone handling *other people's money*. In other words, if I, investing your money for you and subject to your continuing scrutiny, have the choice between buying a popular Blue Chip like American Telephone, or "X" company which is not in style but offers much better value; I am tempted to choose Telephone *irrespective of its price;* because if it goes down 20 points I am "in the best company," while if "X" company has even a temporary loss, I will probably be forced to make embarrassing and seemingly complicated excuses.

Here is one of the places where your obligations, which I mentioned at the outset, come in. Don't further this window-dressing trend. Encourage your adviser and trustee to pursue long-term investment and value-appraisal methods. Don't worry him over short-term market fluctuations. Remember: — value is a different thing from day-to-day market price.

Investment Counsel

A comparatively new arrival in the investment advisory field—and with a distinctly professional attitude—is the investment counsel. The counsel gets his major income from managing accounts, through the giving of advice as to the investment of funds on the basis of the individual needs of each client, without engaging in other activities as brokerage, banking or distributing services. Their compensation is by a fixed annual fee, usually ½ of 1%, without regard to capital appreciation or other results achieved, and—a great advantage—his remuneration is not related to the client's activity — in contrast to the brokerage commission system where the fees are dependent directly on the account's activity.

The investment counsel system has the further advantage of working out for each client a complete portfolio adapted to his own peculiar needs — instead of disjointed and sporadic advice about individual issues without regard to the specific needs of the individual.

One catch to the engaging of counsel is its limitation to the upper bracket individuals. Most counsels have a minimum of $100,000 on accounts that are acceptable, with some exceptions down to $50,000.

Here again with counsel is it particularly necessary for the client to let them behave properly—that is, to take the long-term attitude stressing preservation of capital with satisfactory income — and not to become restless because Aunt Susie or Cook has made 1,000% from a hot tip from her "smart" broker.

Don't confront your adviser with the Hobson's Choice of either acting like a stupid speculator, or else losing you as a client!

The Customers' Broker

Advising as to your choice of, and relationship with, a broker to handle your stock exchange business is no doubt the most difficult part of my assignment.

A main difficulty facing you here is not within your province, but stems from the very nature of the brokerage industry. In order to buy or sell an Exchange-listed security you must entrust your order to a member of that Exchange, and practically his sole remuneration is derived from the commission which is chargeable. Excepting for variations in accordance with the market price of the respective stock, such commissions are uniform—being the same alike for an order given through a single two-minute telephone conservation, and perhaps along with other orders, or on the other hand after getting the benefit of generous advice and perhaps a complete statistical analysis.

Brokers being human beings, this commission system poses the danger of encouragement to over-trading, as well as of neglect of the individual's over-all investment needs. Also, brokers seem to have what I'd call an "occupational bias" against recommending the *sale* of stocks.

However, despite the "flat" commission system, today's brokers are more and more making available the results of careful security analysis on both individual company and industry-wide bases, and preparing special reports to customers, on request without charge. Also, many brokers maintain special departments for assisting their customers with their investment and tax problems. Usually these services too are given without cost, particularly when the customer transacts his business with the respective broker. However, in some cases a charge for continuing advisory service is made — against which commissions may be credited—to insure the broker's objectivity—in line with the fault in the commission system which I have just mentioned.

"How shall I choose my broker" remains, I fear, the $64 question—even more so than which doctor or lawyer to call in on your case.

First a few affirmative suggestions:

Get a panel of names of at least a few reliable and well-equipped brokerage firms, from your bank, your accountant, your lawyer, or perhaps from an advertisement in a financial journal.

Make sure he possesses an adequate staff for security analysis and advice on portfolio management.

Use empirical trial-and-error among your prospects.

Treat your broker as a professional adviser. That is, don't expect him to "beat the market" or out-do other brokers in (supposedly) making market profits.

Encourage your broker or adviser to preserve a long-term investment attitude, emphasizing income, and to pursue value-appraisal methods toward individual issues, in lieu of the indoor sport of out-guessing the crowd as to future market movements. In other words, let him behave. **"It is as important for the customer to behave himself as it is for your stocks to behave themselves."**

Equip yourself with the knowledge at least sufficient to check whether his analysis department is pursuing sound methods.

Now for a few don'ts—

Don't get quotations from him during market sessions.

Don't look to him to "beat-the-market"—in fact, don't let him try.

Don't tempt him to cater to your emotional foibles.

Don't get upset because your friend has made 50 points in a stock that you don't own. Remember J. P. Morgan's consolation for you: "Don't run after a trolley car or a beautiful woman; there will be another one along in a few minutes. . . . So with securities."

Don't stick with him only because of friendship. Other things being equal, friendship will be determining; if they are not equal, only you, yourself can determine the relative importance to you of friendship and ability.

The Investment Banker

The lay investor has no need to deal directly with the investment banker. Remember that in the case of new issues the underwriter has a personal stake in it which may tend to color his advice; and second, that the majority of new issues are offered at periods of favorable—that is high-level—market conditions, which is the wrong time of the cycle in which to invest.

The Dealer

How to deal with a dealer may be important to you. His salesman may call on you to sell you over-the-counter securities ranging from little-known industrial companies to the highest grade bank and insurance companies, and particularly now, mutual funds.

While their off-the-exchange location frequently affords greater value-gaining properties to such issues, they are more suitable for the expert than the uninitiated investor. In the first place, more information is usually available to you on exchange-listed securities; and secondly, when the dealer acts as a principal, as he usually does, the price contains a greater element of uncertainty.

These elements can be taken care of to great advantage by the initiated.

The Investment Trusts

Discussion of the dealer's functioning, and also because it constitutes one of the major direct media for taking care of one's funds, now makes appropriate description of the so-called "investment trust"—now called the investment company or mutual fund. Its importance is evidenced by the quintupling of the size of the open-end funds to assets of $2 billion over the last decade, and their increasing legitimization by being made acceptable for trust funds. This audience particularly will be interested to know that women comprise the majority of the stockholders of many of the major funds.

What actually is an investment company? Generally speaking, it is a trust or a corporation engaged in the business of managing investments for other people. It does not put its funds into the direct ownership of goods or commodities, but instead into the liquid stocks and bonds of other companies. The investment company manages these securities—in the manner of a pool—for the benefit of its own shareholders, who participate pro rata in the income and capital profits which result from the trust's management.

These investment companies are broadly classified into two types, closed-end trusts and open-end funds.

The chief difference between the two is that the stock of an open-end fund is continuously being offered for sale and will be bought in by the company, if the stockholders request it, at its actual value at that time, and this value is now computed twice daily on each business day.

On the other hand, the closed-end company has a fixed number of shares outstanding—and if you wanted to dispose of your shares you would sell them, not to the company, but to another individual at the best price you can get—usually on an Exchange.

Some of the trust's advantages, particularly to the small inexperienced investor, are as follows:

Diversification — helps avoid the fault of putting all his eggs in one basket.

Expert management by specialists.

Objectivity—this even an advantage to the expert individual—under the same principle as a doctor not treating himself, because of the emotional interferences.

Takes care of investing order, through issuing a single check, quarterly, and providing safekeeping, instead of the individual's worrying over a lot of odds and ends.

This phase is a particular advantage to elderly people who want to put their affairs in good order for their heirs.

Offers regularized accumulation plans to build up an estate or a children's education fund. Some of these plans enable the investor to put in a small amount each month, and reinvest and compound the dividends as they go along.

* * *

Now for some of the *caveats* that you must use in your attitude toward the funds.

In the first place, what fund or funds to choose? The best method would be to equip yourself to judge them, on the basis of integrity of the trustees, the investing ability of the management as revealed by past performance of not only profits achieved, but the regular annual income record. If you do not have this knowledge, get the opinion of a bank officer, customers' broker, or dealer.

Realize that although trust operation is regulated by the Investment Company Act, by the SEC and by State Blue Sky Laws, and they insure the disclosure of full information, the law of course can give no guaranty of safety or good management. The cash-in-privilege does not insure your full investment back without loss, but merely your proportionate share of the market's changing valuation of the trust's assets.

Remember that there is usually a buying charge you must pay—ranging up to 9% of the trust's asset value—when you acquire the shares. Remember that you will lose this 9%—equivalent to about two years investment income — if you switch to another fund, or otherwise cash-in your holding. So hang on to your shares, unless there is a compelling reason for disposing of them.

Don't add to the pressure on your trust managers for window-dressing; that is toward concentrating on the popular so-called Blue Chip issues, irrespective of their price. On the contrary, encourage those trusts which pursue value appraisal principles.

Don't expect a trust to do the impossible in "beating the market."

Don't without good reasons switch from life insurance or government bonds to trust investment. They each have constructive advantages.

Don't buy a fund *only* for its protection against inflation. It offers plenty of other benefits.

Above all — preserve a long-term investment attitude here as well as elsewhere.

* * *

Conclusions

Your own responsibilities which must accompany your choices among all the investing facilities available to you, I have mentioned as we have gone along. But let me summarize them all in this one sentence: **Maintain the frame of mind of a businesslike investor looking for value and reasonable long-term results in the way of preserving your capital, in lieu of following the speculative foibles of the crowd—all for your own benefit as well as the interests of the entire investment world!**

Joins First California

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Cal.—Marcus B. Eilers is now connected with First California Company, 647 South Spring Street. He was formerly with Jones, Cosgrove & Co.

Wm. R. Staats Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Cal.—Robert D. Cathcart has been added to the staff of William R. Staats Company, 640 South Spring Street, members of the Los Angeles Stock Exchange. He was formerly with J. A. Hogle & Co.

With Francis I. du Pont Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Cal. — Lawrence H. Hoerres has joined the staff of Francis I. du Pont & Co., 722 South Spring Street.

Edward Shearson

Edward Shearson, partner of Shearson, Hammill & Co. for 38 years, until his retirement in 1940, died at the age of 86 after a brief illness.

A. A. Tibbe Adds

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo.—Santo Tissi has joined the staff of A. A. Tibbe & Co., 506 Olive Street.

With Knowlton Co.

(Special to THE FINANCIAL CHRONICLE)

OAKLAND, Calif. — Wayne Jewell has been added to the staff of Frank Knowlton & Co., Bank of America Building.

With C. E. Bohlander

(Special to THE FINANCIAL CHRONICLE)

BLOOMINGTON, Ill.—Theodore Bohlander has joined the staff of C. E. Bohlander & Co., Inc., American State Bank Building.

With A. G. Becker

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Ross A. Whitney, Jr. has become associated with A. G. Becker & Co., 120 South La Salle Street.

Joins Harris Upham

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Robert G. Bergquist is now associated with Harris, Upham & Co., 135 South La Salle Street.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

• Aberdeen Petroleum Corp., Okla.
Oct. 26 (letter of notification) 30,000 shares of capital stock (par $1). **Price**—$3.87 per share. **Underwriter**—Bonner & Bonner, Inc., New York. **Proceeds**—For working capital.

Aeronca Mfg. Corp., Middletown, Ohio
Oct. 2 (letter of notification) $50,000 of 4% convertible promissory notes and 50,000 shares of common stock (latter to be reserved for conversion of notes on basis of 1 share for each $1 unit of notes). **Price**—$2.12½ per $1 unit of notes. **Underwriter**—Greene & Ladd, Dayton, O. **Proceeds**—For working capital. **Office**—Municipal Airport, Middletown, O.

American Cladmetals Co., Carnegie, Pa.
Oct. 19 (letter of notification) 62,000 shares of common stock (par $1). **Price**—At market (about $1.12½ per share). **Underwriter**—Hemphill, Noyes, Graham, Parsons & Co., New York. **Proceeds**—To Charles R. Anthony, Chairman of the Board, who is the selling stockholder.

American-Marietta Co. (11/13)
Oct. 23 filed 150,000 shares of common stock (par $2), of which 100,000 shares will be for the account of the company and 50,000 shares for the account of Grover Hermann, President of the company. **Price**—To be supplied by amendment. **Underwriters**—H. M. Byllesby & Co., Inc. and A. C. Allyn & Co., Inc. **Proceeds**—To be added to general funds and used to replace the funds used in October, 1950 to purchase Master Builders Co. capital stock.

Arkansas Power & Light Co.
May 23 filed 155,000 shares of cumulative preferred stock (par $100). **Proceeds**—To be applied to (a) redemption at $110 per share plus dividend accruals, of all the 47,609 shares of outstanding $7 preferred and 45,891 sares of outstanding $6 preferred; and (b) the carrying forward of the company's construction program. **Bids**—Received by company up to noon (EDT) on June 19, but rejected. Only one bid was made of $100.003 per share, with a $4.95 dividend from Lehman Brothers, Equitable Securities Corp. and White, Weld & Co. (jointly). Statement effective June 12. No further decision reached.

• Asbestos Mines, Inc., Las Cruces, N. M.
Oct. 20 (letter of notification) 488 shares of capital stock. **Price**—At par ($100 per share). **Underwriter** — None. **Proceeds** — For new equipment and construction costs. **Office**—137 West Griggs St., Las Cruces, N. M.

Atlantic City Electric Co. (11/13)
Oct. 18 filed $18,400,000 of first mortgage bonds, series A, due 1980. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart Co. Inc.; Union Securities Corp. and Smith, Barney & Co. (jointly); Harriman Ripley & Co., Inc.; White, Weld & Co. and Shields & Co. (jointly); Lehman Brothers; Kidder, Peabody & Co.; Blyth & Co., Inc.; The First Boston Corp. **Proceeds**—To redeem a like amount of 3¼% first mortgage bonds due in 1964. **Bids**—Expected to be received up to 11 a.m. (EST) on Nov. 13 at Irving Trust Co., One Wall Street, New York, N. Y.

Big West Oil & Gas Co., Dallas, Tex.
Sept 5 filed $1,760,000 of 5% sinking fund debentures due 1965 (convertible into common stock on basis of 200 shares for each $1,000 of debentures). **Price**—To be filed by amendment. **Underwriter**—H. M. Byllesby & Co., Inc., Chicago, Ill. **Proceeds** — For drilling and development expenses and for working capital.

Birmingham (Ala.) Fire Insurance Co.
Oct. 17 (letter of notification) 10,000 shares of common stock to be offered to present common stockholders. **Price**—At par ($10 per share). **Underwriter**—None. **Proceeds**—To enlarge insurance business. **Office**—221 No. 21st St., Birmingham, Ala.

• Blackwood & Nichols Co., Oklahoma City, Okla., and Davidson, Hartz, Hyde & Dewey, Inc., New York
Oct. 26 filed $3,500,000 of contributions in oil property interests in amounts of $5,000 or more. **Underwriter**—None. **Proceeds**—To acquire and develop oil property.

Brunner Manufacturing Co., Utica, N. Y.
Oct. 17 (letter of notification) 37,172 1/7 shares of common stock (par $1) being offered to common stockholders of record Oct. 24 at rate of one share for each seven shares held; rights expire Nov. 8. **Price**—$6 per share. **Underwriter**—Mohawk Valley Investing Co., Inc., Utica, N. Y. **Proceeds**—For general corporate purposes.

Carolina Casualty Insurance Co., Burlington, North Carolina
Oct. 2 (letter of notification) 50,000 shares of class B (non-voting) common stock (par $1) to be offered to present stockholders on basis of one share for each five shares held. **Price**—$2 per share. **Underwriter**—None. **Proceeds**—To increase capital stock and surplus.

• Carolina Telephone & Telegraph Co., Tarboro, North Carolina
Oct. 26 filed 20,825 shares of common stock to be offered to stockholders of record Nov. 22 on basis of one new share for each five shares held. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To repay bank loans the proceeds of which were used for construction program.

• Castle (A. M.) & Co., Chicago, Ill.
Oct. 20 (letter of notification) 3,000 shares of capital stock (par $10). **Price** — At market. **Underwriter**—Lee Higginson Corp., Chicago, Ill. **Proceeds**—To estate of William B. Simpson, the selling stockholder.

Central Power & Light Co. (11/28)
Oct. 23 filed $10,000,000 of first mortgage bonds, series C, due Nov. 1, 1980. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Carl M. Loeb, Rhoades & Co.; Kidder, Peabody & Co.; Union Securities Corp.; The First Boston Corp.; Blyth & Co., Inc., Harriman Ripley & Co. Inc. and Stone & Webster Securities Corp. (jointly); Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane and Salomon Bros. & Hutzler (jointly). **Proceeds**—To repay $750,000 of bank loans and to reimburse the company in part for capital expenditures.

Citizens Casualty Co. of New York
Oct. 19 (letter of notification) 4,000 shares of $1.25 prior preferred stock, to be offered to all stockholders of record Oct. 23 on basis of one for each seven preferred shares held and one for each 70 shares of common shares held; rights to expire on Nov. 15, 1950. **Price**—At par, $25 per share. **Underwriters**—Mohawk Valley Investing Co., Utica, N. Y., and Security and Bond Co., Lexington, Ky. **Proceeds**—For general corporate purposes.

• Consolidated Gas Utilities Corp.
Oct. 25 (letter of notification) 950 shares of common stock. **Price**—$12 per share. **Underwriter**—None. **Proceeds**—To Norman Hirschfield, a director of the company, the selling stockholder. **Office** — Braniff Bldg., Oklahoma City, Okla.

Cooperative Grange League Federation Exchange, Inc., Ithaca, N. Y.
Sept. 28 filed 500,000 shares of common stock to be sold to cooperative members. **Price**—At par ($5 per share). **Underwriter**—None. **Proceeds**—To reduce obligation to Cooperative G.L.F. Holding Corp. **Business**—Farm cooperative.

Cooperative G. L. F. Holding Corp.
Sept. 28 filed 25,000 shares of 4% cumulative preferred stock to be sold to patrons of Grand League Federation Exchange. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To reduce bank debt. **Business**—Property holding and financing instrumentality for G.L.F. Exchange, farm cooperative.

• Copper World Mining Co., Las Vegas, Nev.
Oct. 19 (letter of notification) 4,000,000 shares of common stock, of which 2,500,000 shares are to be issued to Louis Rosen, James Collins and Harry Sheldon in consideration of their agreement for sale of patented mining claims and mill site. **Price**—At par (five cents per share). **Underwriter** — None. **Proceeds**—To construct mill and develop copper mine. **Office** — 900 So. Fifth St., Las Vegas, Nev.

Cribben & Sexton Co., Chicago, Ill.
Oct. 2 (letter of notification) 1,000 shares of common stock (par $5). **Price**—$4.50 per share. **Underwriters**—David A. Noyes & Co. and Swift, Henke & Co., Chicago, Ill. **Proceeds**—To Robert C. Caldwell, a director, the selling stockholder.

Culver Corp., Chicago, Ill.
Oct. 23 filed 132,182 shares of common stock (par $5), of which 4,818 shares are to be offered to stockholders and 127,364 shares to public. **Price** — To stockholders at $5 per share and to public at $6.25 per share. **Underwriter**—None. **Proceeds**—For investments.

• Davidson Bros., Inc., Highland Park, Mich.
Oct. 30 filed 300,000 shares of common stock (par $1) of which 100,000 shares are to be offered to employees and 200,000 shares to the public. **Price**—To be supplied by amendment. **Underwriter** — Baker, Simonds & Co., Detroit, Mich. **Proceeds**—To finance expansion program.

Drayer-Hanson, Inc., Los Angeles, Calif.
Oct. 3 (letter of notification) 255,033 shares of common stock offered to stockholders on a pro rata basis; rights expire Dec. 15, 1950. **Price**—At par (40 cents per share). **Underwriter**—None. **Proceeds**—To pay creditors' claims and for working capital. **Address**—P. O. Box 2215, Los Angeles, Calif.

• Duggan's Distillers Products Corp.
Oct. 27 (letter of notification) 340,000 shares of common stock (par 10c). **Price**—75 cents per share. **Underwriter**—Olds & Co., Jersey City, N. J. **Proceeds**—To pay balance of purchase price for building ($20,000) and for working capital.

• Duggan's Distillers Products Corp.
Oct. 31 (letter of notification) 58,850 shares of common stock (par 10c) under a recission offer. **Price**—50c to 87½c per share, for an aggregate of $42,728. **Underwriter**—Olds & Co., Jersey City, N. J. **Proceeds**—To Charles A. Massie, New York City, the selling stockholder.

• Duval's Consensus, Inc.
Oct. 24 (letter of notification) 199,780 shares of class A common 5% cumulative non-voting stock, of which 75,960 shares will be reserved for conversion of 15,192 shares of preferred stock on a 5-for-1 basis. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—To purchase new equipment and for working capital. **Office**—41-45 Crescent St., Long Island City 1, N. Y.

• Eastern Air Lines, Inc., New York
Nov. 1 filed 100,000 shares of common stock (par $1), to be offered to employees, excluding officers and directors. **Price**—At 85% of the highest sale price of the corporation's stock on Nov. 10, adjusted to the next highest multiple of 25 cents. **Underwriter**—None. **Proceeds**—To increase working capital.

• Eaton Products Co., Denver, Colo.
Oct. 27 (letter of notification) 160 shares of common stock (par $100). **Price**—$300 per share. **Underwriter**—Peters, Writer & Christensen, Inc., Denver, Colo. **Proceeds**—To John Raymond Travis, a director, who is the selling stockholder.

Ekco Products Co., Chicago, Ill.
Oct. 12 (letter of notification) 8,461 shares of common stock (par $2.50). **Price**—$13 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—1949 No. Cicero Ave., Chicago, Ill.

• Exeter & Hampton Electric Co., Exeter, N. H.
Oct. 23 (letter of notification) 8,125 shares of common stock (par $20). **Price**—$34 per share. **Underwriter**—None. **Proceeds**—To repay notes.

Fedders-Quigan Corp.
June 21 filed 103,402 shares of series A cumulative convertible preferred stock (par $50) to be offered to common stockholders on basis of one preferred share for each 12 shares held. **Price**—To be filed by amendment, along with dividend rate. **Underwriter**—Smith, Barney & Co., New York. **Proceeds**—To pay promissory note, to complete purchase of a new plant at El Monte, Calif., and for additional working capital. Statement may be withdrawn. It was reported on Oct. 5 that company has completed purchase of El Monte plant.

• Florida Telephone Corp., Ocala, Fla.
Oct. 27 (letter of notification) 27,200 shares of common stock (par $10). **Price**—$11 per share. **Underwriter**—None. **Proceeds**—For expansion program.

• Garrett Corp., Los Angeles, Calif. (11/20)
Oct. 31 filed 60,000 shares of common stock (par $2). **Price**—To be filed by amendment (estimated at not more than $25 per share). **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane, New York. **Proceeds** — To two selling stockholders.

Government Employees Corp., Washington, D.C.
Sept. 26 filed 30,000 shares of capital stock (par $5), to be offered to stockholders of record Oct. 31 on the basis of one share for each share held; rights to expire Nov. 20. **Price**—$10 per share. **Underwriter**—None. **Proceeds**—For additional capital funds. **Business** — Automobile financing.

• Great American Mining Corp.
Oct. 24 (letter of notification) 50,000 shares of common capital stock. **Price**—50 cents per share. **Underwriter**—None. **Proceeds**—For exploration expenses and working capital. **Office**—1104 First Security Bank Bldg., Salt Lake City, Utah.

Greenwich Gas Co., Greenwich, Conn.
Sept. 1 (letter of notification) 8,000 shares of $1.50 preferred stock (no par) and 9,777 shares of common stock (no par), to be offered first to stockholders. **Price**—Of preferred, $25 per share, and common $10 per share. **Underwriter**—F. L. Putnam & Co., Boston, Mass. **Proceeds**—To retire bank loan and for working capital.

Gulf Power Co. (11/13)
Oct. 13 filed 51,026 shares of preferred stock (par $100), of which 11,026 shares are to be offered in exchange, share for share, for outstanding $6 preferred stock; the remaining 40,000 shares to be offered publicly. **Underwriter**—To be determined by competitive bidding. Probable bidders: Blyth & Co., Inc.; Kidder, Peabody & Co. and White, Weld & Co. (jointly); Union Securities Corp. and Salomon Bros. & Hutzler (jointly); Equitable Securities Corp.; Lehman Brothers; Harriman Ripley & Co., Inc. **Proceeds**—To redeem $6 preferred stock, to repay bank loans and for new construction. **Exchange Offer**—Tentatively scheduled to be made Nov. 14; to expire Nov. 27. **Public Offering**—Scheduled for Nov. 14. **Bids**—Expected to be opened at 11 a.m. (EST) on Nov. 13 at Suite 2000, 20 Pine St., New York, N. Y.

Gulf States Utilities Co. (11/21)
Oct. 17 filed 70,000 shares of preferred stock (par $100). **Underwriters**—To be determined by competitive bidding. Probable bidders: Stone & Webster Securities Corp.; Lehman Brothers and Equitable Securities Corp. (jointly); Union Securities Corp.; First Boston Corp.; Blyth & Co., Inc.; Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Carl M. Loeb, Rhoades & Co. and Lee Higginson Corp. (jointly). **Proceeds**—For construction program. **Bids**—To be received up to 11 a.m. (EST) on Nov. 21 at The Chase National Bank of the City of New York, Room 735, 11 Broad St., New York, N. Y. Stockholders to vote on approving issue on Nov. 20.

Hamilton Fire Insurance Co., Philadelphia
Oct. 2 (letter of notification) 64,000 shares of capital stock (par $5). **Price**—$4.50 per share. **Underwriter**—Jenks, Kirkland & Co., Philadelphia, Pa. **Proceeds**—To increase capital and surplus in order to offer additional

lines of insurance, including automobile casualty and liability coverage. Financing may be abandoned.

● **Hawkeye-Security Insurance Co., Des Moines, Iowa**
Oct. 19 (letter of notification) 2,000 shares of 5% cumulative preferred stock. **Price**—At par ($50 per share). **Undewriter**—Quail & Co., Davenport, Ia. **Proceeds**—To seven selling stockholders. **Office**—1017 Walnut St., Des Moines 9, Ia.

Hooper Telephone Co., Hooper, Neb.
Aug. 18 (letter of notification) $30,000 of 3¾% bonds due 1970. **Price**—In excess of 102%. **Underwriter**—Wachob Bender Corp., Omaha, Neb. **Proceeds**—To retire temporary loans.

Hub Loan Co., Jersey City, N. J.
Sept. 18 (letter of notification) 100,000 shares of 18 cents cumulative convertible preferred stock (par $2). **Price**—$3 per share. **Proceeds**—For working capital.

● **Illinois Commercial Telephone Co. (11/15)**
Oct. 27 filed 21,000 shares of $5.50 cumulative preferred stock (no par). **Price**—At not more than $100 per share (to be supplied by amendment). **Underwriters** — Paine, Webber, Jackson & Curtis; Stone & Webster Securities Corp.; and Mitchum, Tully & Co. **Proceeds** — To retire loans incurred in connection with new construction.

Industrial Coatings Inc., Opa Locka, Fla.
Oct. 4 (letter of notification) 300,000 shares of common stock (par 10 cents). **Price**—$1 per share. **Underwriter**—Carl J. Bliedung, Washington, D. C. **Proceeds**—To reduce liabilities and to expand company's roof-proofing and industrial coatings plant. **Office**—2600 Ali Baba Ave., Opa Locka, Fla.

Kansas Gas & Electric Co. (11/20)
Oct. 10 filed 75,000 shares of common stock (no par) and 45,000 shares of cumulative preferred stock (par $100). Probable bidders: (1) for both issues: Blyth & Co., Inc. **Underwriters**—To be determined by competitive bidding. and First Boston Corp. (jointly); Union Securities Corp.; Merrill Lynch, Pierce, Fenner and Beane and Kidder, Peabody & Co. (jointly); Lehman Brothers; (2) on common stock only: Glore, Forgan & Co.; (3) on preferred stock only: White, Weld & Co. and Shields & Co. (jointly); Halsey, Stuart & Co. Inc. **Proceeds**—To pay construction costs, amounting to about $19,500,000 through 1952. **Bids**—To be received at Room 2033, Two Rector St., New York 6, N. Y., on Nov. 20 up to 10:30 a.m. (EST) for the common and up to noon (EST) for the preferred stock.

Kaye-Halbert Corp., Culver City, Calif.
Oct. 6 by amendment filed 120,000 shares of class A convertible common stock (par $1). **Price**—$5 per share. **Underwriter**—Sills, Fairman & Harris, Inc., Chicago, Ill. **Proceeds**—To pay off promissory notes and for working capital.

Keystone Custodian Funds, Inc., Boston, Mass.
Oct. 24 filed 500,000 shares of series B-3 certificates of participation, 1,000,000 shares of series B-4 certificates of participation, 500,000 shares of series K-1 certificates of participation, 25,000 shares of series S-1 certificates of participation, and 500,000 shares of series S-4 certificates of participation (all $1 par value each). **Underwriter**—The Keystone Co. of Boston. **Business**—Investment company.

Lancaster Chemical Corp.
Oct. 23 (letter of notification) 100,000 shares of 6% (cumulative, if earned) convertible preferred stock, being offered to common stockholders of record Oct. 18 on a pro rata basis; rights expire Nov. 30. **Price**—At par ($2.50 per share), payable in cash or at rate of one common share (par $1) plus 50 cents in cash. **Underwriter**—None. **Proceeds**—For working capital. **Office**—620 Fifth Ave., New York 20, N. Y.

Lorain Telephone Co.
Oct. 5 (letter of notification) 2,830 shares of common stock (no par) offered to common stockholders of record Oct. 7 on a pro rata basis; rights expire Dec. 15. **Price**—$20 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—203 9th St., Lorain, Ohio.

Louisiana Power & Light Co.
May 23 filed 90,000 shares of preferred stock (par $100). **Proceeds**—To be used to redeem, at $110 per share plus dividend accruals, the 59,422 shares of outstanding $6 preferred stock, and for construction and other purposes. **Bids**—Received by company up to noon (EDT) on June 19, but rejected. Three bids were made as follows: Union Securities Corp., $100.40 per share with a $4.65 dividend; Blyth & Co., Inc., and Equitable Securities Corp. (jointly), $100.10 with a $4.65 dividend; and W. C. Langley & Co. and First Boston Corp. (jointly), $100.30 with a $5.80 dividend. Statement effective June 12. No further decision reached.

Louisiana Power & Light Co. (11/14)
Oct. 10 filed $10,000,000 of first mortgage bonds, due Nov. 1, 1980. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. (jointly); Kuhn, Loeb & Co. and Lehman Brothers (jointly); Blyth & Co., Inc.; Harriman, Ripley & Co. ,Inc.; Shields & Co. and White, Weld & Co. (jointly); Salomon Bros. & Hutzler; W. C. Langley & Co., The First Boston Corp. and Glore, Forgan & Co. (jointly); Equitable Securities Corp. **Proceeds**—For construction program. **Bids** — Expected to be received up to noon (EST) on Nov. 14 at Room 2033, Two Rector Street, New York, N. Y.

McCoy-Couch Furniture Mfg. Co., Benton, Ark.
Oct. 16 (letter of notification) 12,000 shares of common stock. **Price**—At par ($25 per share). **Underwriter**—None. **Proceeds** — To repay RFC loan and to increase working capital. **Address**—P. O. Box 312, Benton, Ark.

NEW ISSUE CALENDAR

November 2, 1950

Chicago & Eastern Illinois RR. Noon (CST)	Equip. Trust Ctfs.

November 7, 1950

Monarch Radio & Television Corp.	Common

November 8, 1950

Bangor & Aroostook RR.	Bonds

November 9, 1950

New York Central RR.	Equip. Trust Ctfs.

November 13, 1950

American-Marietta Co.	Common
Atlantic City Electric Co., 11 a.m. (EST)	Bonds
Gulf Power Co., 11 a.m. (EST)	Preferred
Michigan Consolidated Gas Co. 11 a.m. (EST)	Bonds

November 14, 1950

Louisiana Power & Light Co., noon (EST)	Bonds
Norris Stamping & Mfg. Co.	Common
Penton Publishing Co.	Class A

November 15, 1950

Illinois Commercial Telephone Co.	Preferred
Rohr Aircraft Corp.	Common
Western Pacific RR.	Bonds
Wisconsin Public Service Corp. 10:30 a.m. (CST)	Bonds

November 20, 1950

Garrett Corp.	Common
Kansas Gas & Electric Co. 10:30 a.m. (EST)	Common
Kansas Gas & Electric Co., noon (EST)	Preferred
Southern Production Co., Inc. 11 a.m. (EST)	Common

November 21, 1950

Gulf States Utilities Co., 11 a.m. (EST)	Preferred
Hawaii (Territory of)	Bonds

November 28, 1950

Central Power & Light Co.	Bonds

November 29, 1950

Missouri-Kansas-Texas RR.	Equip. Trust Ctfs.

December 1, 1950

American Investment Co. of Illinois	Common

December 4, 1950

Minnesota Power & Light Co. Noon (EST)	Common
Southwestern Gas & Electric Co.	Bonds

December 11, 1950

Carolina Power & Light Co.	Bonds

December 12, 1950

Metropolitan Edison Co.	Bonds & Preferred

McDonnell Aircraft Corp., St. Louis, Mo.
Oct. 23 (amendment) 80,000 shares of common stock (par $5). **Price**—At market (estimated at $17.25 per share) to be offered over-the-counter. **Underwriter**—Brokers and/or dealers may be underwriters. **Proceeds**—To five selling stockholders.

● **McKales Corp., Seattle, Wash.**
Oct. 19 (letter of notification) 8,000 shares of class A common stock (par $3). **Price**—$8 per share. **Underwriter**—None. **Proceeds**—To construct new service station. **Office**—2124½ Third Ave., Seattle 1, Wash.

Mercantile Acceptance Corp. of California
Oct. 5 (letter of notification) 1,395 shares of first preferred stock, 5% series. **Price**—At par ($20 per share). **Underwriter**—Guardian Securities Corp. of San Francisco. **Proceeds**—For corporate purposes. **Office**—333 Montgomery Street, San Francisco, Calif.

Michigan Consolidated Gas Co. (11/13)
Oct. 16 filed $20,000,000 first mortgage bonds due Nov. 1, 1975. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; White, Weld & Co. and Lehman Brothers (jointly); Smith, Barney & Co. and Blyth & Co., Inc. (jointly); Harriman Ripley & Co. Inc.; Union Securities Corp. **Proceeds**—From sale of bonds together with $6,000,036 to be received from sale of 428,574 shares of common stock to American Natural Gas Co., the parent, to be used to retire $15,000,000 bank borrowings and to finance, in part, the company's extensive construction program. **Bids**—Expected to be opened at 11 a.m. (EST) on Nov. 13 at office of company, 415 Clifford Street, Detroit, Mich.

Middle South Utilities, Inc.
June 1 filed 400,000 shares of common stock (no par) to be offered to preferred stockholders of three subsidiaries —Arkansas Power & Light Co., Louisiana Power & Light Co. and Mississippi Power & Light Co. Underwriter—Equitable Securities Corp will serve as "dealer-manager." Statement to be withdrawn.

Middlesex Water Co., Newark, N. J.
Feb. 9 (letter of notification) 5,200 shares of common stock offered to common stockholders at $50 per share on a one-for-five basis. Underwriter—Clark, Dodge & Co. Proceeds—To pay notes and for additional working capital. Indefinitely postponed.

● **Midvale Co., Philadelphia, Pa.**
Oct. 27 (letter of notification) up to, but not exceeding 6,650 shares of capital stock (no par). **Price**—At market (N. Y. Curb Exchange closing price Oct. 19 was $15 per share). **Underwriter**—None. **Proceeds**—To Baldwin Locomotive Works, the selling stockholder.

● **Minnesota Power & Light Co. (12/4)**
Oct. 30 filed 150,000 shares of common stock (no par). **Underwriters**—To be determined by competitive bidding. Probable bidders: First Boston Corp. and Blyth & Co., Inc. (jointly); White, Weld & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Kidder, Peabody & Co.; Lehman Brothers. Proceeds for construction program. **Bids**—Expected to be received up to noon (EST) on Dec. 4.

Mission Appliance Corp., Hawthorne, Calif.
July 24 filed 50,000 shares of 6% cumulative convertible preferred stock. **Price**—At par ($20 per share). **Underwriter**—Lester & Co., Los Angeles, Calif. **Proceeds**—To retire bank loans and install machinery and equipment in a proposed new plant to be located east of the Rocky Mountains. **Business**—Manufacturer of gas and electric water and space heaters.

Mississippi Power & Light Co.
May 23 filed 85,000 shares of cumulative preferred stock (par 100). Proceeds—To be used to redeem at $110 per share plus dividends, the outstanding 44,476 shares of $6 preferred stock and for construction and other corporate purposes. Bids—Received by company up to noon (EDT) on June 19 but rejected. Four bids were made as follows: Union Securities Corp., $100.10 per share with a $4.80 dividend; Lehman Brothers, $100.551 with a $4.85 div.; W. C. Langley & Co. and First Boston Corp. (jointly), $100.30 with a $4.90 dividend; and Blyth & Co., Inc., Equitable Securities Corp., Shields & Co., White, Weld & Co. and Kidder, Peabody & Co. (jointly), $100.19 with a $4.90 dividend. Statement effective June 12. No further decision reached.

Monarch Radio & Television Corp. (11/7-8)
Sept. 8 (letter of notification) 600,000 shares of common stock (par 5 cents). **Price**—50 cents per share. **Underwriter**—George J. Martin Co., New York. **Purpose**—For expansion and working capital. **Office**—2430 Atlantic Avenue, Brooklyn 7, N. Y. Expected next week.

Montana Power Co.
Sept. 25 filed $10,000,000 of 25-year sinking fund debentures due Oct. 1, 1975. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co.; Union Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co. and Smith, Barney & Co. (jointly); White, Weld & Co.; Lehman Brothers. **Proceeds**—To repay bank loans and for expansion and extension of gas and electric properties. **Offering**—Originally scheduled for Oct. 31 has been postponed for at least six to nine months. Temporary bank borrowings will be arranged.

Morris Plan of America, New York
Sept. 21 filed 389,449 shares of common stock (par $5), offered to common stockholders of record Oct. 19 at rate of one share for each four shares held, with an oversubscription privilege; rights expire on Nov. 14. **Price**—At par. **Underwriter**—None. **Proceeds**—To invest proceeds in its wholly-owned subsidiary, National Industrial Credit Corp., which will use the funds to discharge an indebtedness to American General Corp. Statement effective Oct. 16.

● **Mt. Mansfield Hotel Co., Inc., Stowe, Vt.**
Oct. 25 (letter of notification) 2,000 shares of common stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To retire note indebtedness and to purchase property.

Multnomah Plywood Corp., Portland, Ore.
Sept. 18 filed 160 shares of common stock of which 145 shares will be offered to stockholders and 15 shares to certain individuals. **Price**—At par ($2,500 per share). **Underwriter**—None. **Proceeds**—For costs involved in competition and expansion of plan and for working capital.

N. & W. Industries, Inc., Lynchburg, Va.
Oct. 30 filed 32,000 shares of 5% cumulative preferred stock (par $25) and 144,000 shares of common stock (par $1) to be offered in units of one share of preferred and 4½ shares of common stock, in multiples of two, the latter for account of selling stockholders. **Price**—To be supplied by amendment. **Underwriter**—Scott, Horner & Mason, Inc., Lynchburg, Va. **Proceeds**—For construction of new building and for working capital. **Business**—Manufacturer of overalls.

● **Nachman Corp., Chicago, Ill.**
Oct. 25 (letter of notification) 6,000 shares of common stock (par $10). **Price**—$15 per share. **Underwriter**—Bacon, Whipple & Co., Chicago, Ill. **Proceeds**—To Mitchell, Hutchins & Co., Inc., the selling stockholder.

Nash-Finch Co., Minneapolis, Minn.
Sept. 11 (letter of notification) 3,000 shares of common stock. **Price**—From $17 to $20 per share. **Underwriter**—J. M. Dain & Co., Minneapolis, Minn. **Proceeds**—To Finch Investment Co.

New Bedford Gas & Edison Light Co.
Sept. 14 filed 17,717.8 shares of common stock (par $25) to be offered to common stockholders of record June 14, 1950 on basis of one share for each 15 shares then held. New England Gas & Electric Association (owner of 97.37% of the outstanding stock) proposes to purchase any shares not subscribed for by others. **Price**—$67.50 per share. **Proceeds** — To finance property additions. Statement effective Oct. 5.

New Jersey Realty Title Insurance Co.
Oct. 12 (letter of notification) 125,000 shares of capital stock (par $1) to be offered to stockholders of record

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Oct. 2, 1950, on basis of one share for each two shares held; rights expire Nov. 15. **Price**—$2 per share. **Underwriter**—None. **Proceeds**—To be added to capital funds of company and invested in investments. **Office**—830 Broad St., Newark, N. J.

Norris Stamping & Mfg. Co. (11/14)
Oct. 24 filed 190,000 shares of common stock (par $1). **Price**—$12 per share. **Underwriters**—William R. Staats Co., Los Angeles, Calif., and A. C. Allyn & Co., Inc., Chicago, Ill. **Proceeds**—To Kenneth R. Norris, President, the selling stockholder.

● **Oil Prospectors, Inc., Mineral Wells, Tex.**
Oct. 25 (letter of notification) 200,000 shares of capital stock. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—For working capital. **Office**—Damron Hotel, Mineral Wells, Tex.

● **Osco Drug Inc., Chicago, Ill.**
Oct. 23 (letter of notification) 1,000 shares of common stock to be offered to 20 employees of company. **Price**—At par ($100 per share). **Proceeds**—For general corporate purposes. **Office**—Merchandise Mart, Chicago, Ill.

Penton Publishing Co., Cleveland, O. (11/14)
Oct. 17 filed 80,000 shares of $1.50 convertible class A stock (par $25), to be offered to holders of presently outstanding 20,078 shares of $100 par 7% preferred stock on basis of 5½ shares of new class A stock in exchange for each share of 7% preferred subject to acceptance by not less than 12,000 shares of 7% preferred, nor by more than 14,545 shares. The exchange offer is expected to be made on or about Nov. 14 and will expire 10 days later. **Underwriter**—Maynard H. Murch & Co., Cleveland, Ohio. **Proceeds**—Toward redemption of 7% preferred stock and payment of accrued dividends.

● **Pine and 48th Street Corp., New York**
Oct. 25 filed voting trust certificates for 1,780 shares of common stock (no par value). **Voting Trustees**—George E. Roosevelt, Douglas Vought and Clayton McElroy, Jr.

● **Plastic Film Products Corp., Akron, O.**
Oct. 27 (letter of notification) 2,405 shares of class A non-voting common stock. **Price**—At $65 per share. **Underwriter** — None. **Proceeds** — To expand facilities. **Office**—60 So. Seiberling St., Akron, O.

● **Producers Finance Co. of Utah**
Oct. 23 (letter of notification) 300,000 shares of common stock. **Price**—$1 per share. **Underwriter**—None. **Proceeds**—For capital and surplus to activate insurance company. **Address**—P. O. Box 933, Salt Lake City, Utah.

Quaker City Fire & Marine Insurance Co.
Aug. 2 (letter of notification) 10,000 shares of capital stock (par $20) to be offered on a one-for-four basis to stockholders of record Oct. 20, 1950, with the rights expiring Dec. 4, 1950. **Price**—$25 per share. **Underwriter** — Unsubscribed shares to be offered publicly through Burton, Cluett and Dana, 120 Broadway, New York, N. Y. **Proceeds**—For working capital. **Office**—226 Walnut Street, Philadelphia 6, Pa.

Ramie Products Corp.
Sept. 21 (letter of notification) 25,000 shares of common stock (par $1). **Price**—$3 per share. **Underwriter**—Smith, Talbott & Sharpe, Pittsburgh, Pa. **Proceeds**—For purchase of additional machinery and equipment and working capital. **Office**—507 Liberty Avenue, Pittsburgh 22, Pa.

● **River Valley Finance Co., Davenport, Iowa**
Oct. 24 (letter of notification) 2,000 shares of 6% preferred stock. **Price**—At par ($100 per share). **Underwriter**—Quail & Co., Davenport. **Proceeds**—To increase working capital.

Rohr Aircraft Corp., Chula Vista, Calif. (11/15)
Oct. 25 filed 238,000 shares of common stock (par $1), of which 100,000 shares are for the account of the company and 138,000 for the account of selling stockholders. **Price**—To be filed by amendment. **Underwriters**—The First Boston Corp., New York, and Lester & Co., Los Angeles, Calif. **Proceeds**—To company to retire outstanding preferred stock and mortgage notes.

● **Seaboard Finance Co., Los Angeles, Calif.**
Oct. 13 (letter of notification) 12,500 shares of preferred stock and/or 18,000 shares of common stock to be sold to employee members of the Savings and Profit Sharing Pension Fund: $2.60 no par value convertible preferred stock; $1.35 no par series B preferred stock; and $1 par value common stock. **Price**—Not to exceed market. **Proceeds**—For pension fund. **Office**—945 So. Flower St., Los Angeles, Calif.

Seneca Oil Co., Oklahoma City, Okla.
April 27 (letter of notification) 225,782 shares of class A stock (par 50¢). **Price**—$1.25 per share. **Underwriter**—Genesee Valley Securities Co., Rochester, N. Y. **Proceeds**—To acquire properties and for working capital.

● **Silver Divide Mines Co., Carson City, Nev.**
Oct. 20 (letter of notification) 106,000 shares of non-assessable common stock (par five cents). **Price**—10 cents per share. **Underwriter**—None. **Proceeds**—To obtain interest in potential gas wells. **Office**—215 N. Carson St., Carson City, Nev.

Simmel-Meservey Television Productions, Inc.
June 29 (letter of notification) 150,000 shares of common stock (par $1). **Price**—$2 per share. **Underwriter**—Koellmer & Gunther, Newark, N. J. **Proceeds**—To complete films in progress and for general corporate purposes. **Office**—321 So. Beverly Drive, Beverly Hills, Calif. Statement to be withdrawn.

● **Sioux Oil Co., Denver, Colo.**
Oct. 24 (letter of notification) 1,149,884 shares of common stock (par one cent). **Price**—Four cents per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—220 Paramount Bldg., Denver 2, Colo.

● **Skiles Oil Corp., Mt. Carmel, Ill.**
Oct. 27 filed 125,000 shares of 6% cumulative convertible preferred stock (par $10) and 250,000 shares of common stock (par $1), of which 125,000 common shares are to be reserved for conversion of preferred. **Price**—For preferred, at par, and for common, $7.50 per share. **Underwriter**—F. S. Moseley & Co., Chicago, Ill. **Proceeds**—To repay notes and for additional working capital.

Southern Discount Co., Atlanta, Ga.
Sept. 18 (letter of notification) $191,500 of 5% subordinated debentures, series E. **Price**—At par. **Underwriter**—For $100,000 of debentures, Allen & Co., Lakeland, Fla. **Proceeds**—To reduce bank loans and for working capital. **Office**—220 Healey Bldg., Atlanta, Ga.

● **Suburban Centers Trust, Boston, Mass.**
Oct. 20 (letter of notification) $280,000 of registered senior 5% convertible notes due 1960 (in denominations of $100 each). **Price**—At 100%. **Underwriter**—None. **Proceeds**—For working capital to construct suburban shopping centers. **Office**—84 State St., Boston 9, Mass.

Tennessee Gas Transmission Co., Houston, Tex.
Aug. 28 filed 133,334 shares of common stock (par $5) to be issued in exchange for 80,000 shares of common stock of Sterling Oil & Gas Co., and for 10-year subscription warrants to purchase 133,333 shares of Sterling common stock. The rate of exchange is as follows: 1⅓ shares of Tennessee stock for each Sterling share; and one-fifth Tennessee share for each warrant. Offer to expire Nov. 6, unless extended. **Exchange Agent**—The National Bank of Commerce of Houston, Texas. Statement effective Sept. 22.

Tide Water Power Co.
Sept. 27 filed 150,000 shares of common stock (no par). **Price**—To be filed by amendment. **Underwriters**—Union Securities Corp. and W. C. Langley & Co. **Proceeds**—For construction program. Temporarily postponed.

● **Tide Water Power Co.**
Nov. 1 filed 132,000 shares of $1.35 cumulative preferred stock (par $25), convertible on or before December, 1960. **Price**—To be supplied by amendment. **Underwriter**—Union Securities Corp. and W. C. Langley & Co., New York. **Proceeds**—For construction program.

● **Twenty-Second and Dais Street Corp., Portland, Oregon**
Oct. 27 (letter of notification) 1,370 shares of common voting stock (no par), to be offered in 63 units of shares related to apartments. **Price**—$100 per share. **Underwriter**—None. **Proceeds**—To be applied on account of the purchase of common shares of Ketell Arms Corp. and Ketell Manor Corp., two apartment houses. **Office**—208 Platt Building, Portland 5, Ore.

● **Western Pioneer Insurance Co., Oakland, Calif.**
Oct. 26 (letter of notification) 12,000 shares of non-assessable common stock (par $10). **Price**—$25 per share. **Underwriter**—None. **Proceeds**—To expand operations. **Office**—4101 Broadway, Oakland, Calif.

Weymouth Light & Power Co.
Oct. 17 (letter of notification) 16,298 shares of capital stock (par $25) to be offered to present stockholders. New England Electric System (the parent) proposes to acquire 16,227⅓ shares and any shares not subscribed for by minority stockholders. **Price**—$35 per share. **Underwriter** — None. **Proceeds**—To repay bank loans and advances and for construction expenses.

● **Wilcox-Gay Corp., Charlotte, Mich.**
Oct. 25 filed 500,000 shares of common stock (par $1). **Price**—To be supplied by amendment. **Underwriters**—Gearhart, Kinnard & Otis, Inc., New York, N. Y., and White & Co., St. Louis, Mo. **Proceeds**—To pay obligations to all unsecured creditors.

Wisconsin Public Service Corp. (11/15)
Oct. 16 filed $4,000,000 of first mortgage bonds due Nov. 1, 1980. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; First Boston Corp. and Robert W. Baird & Co. (jointly); Kidder, Peabody & Co.; Union Securities Corp.; Equitable Securities Corp.; Otis & Co.; Merrill Lynch, Pierce, Fenner & Beane; Salomon Bros. & Hutzler; A. G. Becker & Co.; Carl M. Loeb, Rhoades & Co.; Harris, Hall & Co. (Inc.); Shields & Co.; F. S. Moseley & Co. **Proceeds**—From sale of bonds, plus $2,250,000 to be received from sale of stock at par to Standard Gas & Electric Co., will be used to repay $3,300,000 of bank loans and to finance construction program. **Bids**—Expected to be received up to 10:30 a.m. (CST) on Nov. 15 at the Harris Trust and Savings Bank, Chicago, Ill.

Prospective Offerings

American Investment Co. of Illinois (12/1)
Oct. 23 it was announced that company plans to file in the near future a registration statement with the SEC covering up to 100,000 additional shares of common stock (par $1), on the basis of one share for each 20 shares owned. **Price**—To be filed by amendment. **Offering**—Registration statement expected to become effective on or about Dec. 1. **Underwriters**—Kidder, Peabody & Co., Alex. Brown & Sons and Glore, Forgan & Co. handled latest private sale of debentures.

American Telephone & Telegraph Co.
Sept. 20 it was announced stockholders will vote Nov. 15 on approving a new issue of not to exceed $435,000,000 of convertible debentures (to be offered to stockholders) and an increase in authorized capital stock from 35,000,000 to 45,000,000 shares, 3,000,000 shares of the additional stock to be offered to employees of the company and its subsidiaries. Financing expected some time during the first six months of 1951. **Proceeds**—For expansion program.

● **Atlantic City Electric Co.**
Oct. 18 company estimated that about financing to the extent of $2,000,000 will be required in connection with its construction expenditures from Sept. 1, 1950 through Dec. 31, 1951 which will amount to $6,898,000.

● **Avco Manufacturing Corp.**
Oct. 10 it was announced stockholders will vote Nov. 14 on plan to increase the authorized common stock from 10,000,000 shares to 15,000,000 shares to provide sufficient stock to complete the acquisition of all the assets and business of Bendix Home Appliances, Inc. (83% of stock of latter is owned by Avco). Emanuel, Deetjen & Co. and Lehman Brothers acted as dealer-managers under the exchange offer.

● **Bangor & Aroostook RR. (11/8)**
Oct. 25 the RFC offered to sell its remaining holdings of the company's collateral trust 4% bonds due 1961 totaling $3,000,000. Bids should be directed to the office of the Secretary of the RFC, Washington 25, D. C. The decision on the bids will not be made prior to Nov. 8.

● **Brewing Corp. of America**
Oct. 23 it was announced that stockholders will vote Nov. 3 on the creation of $6,000,000 mortgage indebtedness, consisting of a $3,000,000 first mortgage to mature serially and a $3,000,000 second mortgage to mature on Sept. 30, 1957. Proceeds will be used to refund the outstanding $6,000,000 of existing indebtedness.

Carolina Power & Light Co. (12/11)
Oct. 3 it was reported that this company will be in the market, probably in December, with an offering of $15,000,000 of new bonds. Previous debt financing placed privately. If competitive, probable bidders are: Halsey, Stuart & Co. Inc.; W. C. Langley & Co. and First Boston Corp. (jointly); Kidder, Peabody & Co.; Lehman Brothers; Equitable Securities Corp. Proceeds will be used for expansion program.

Central Hudson Gas & Electric Corp.
Oct. 25 company announced it has asked New York P. S. Commission authority to issue $12,000,000 of new 30-year first mortgage bonds, of which it plans to sell early in December at least $7,000,000 and the remainder in instalments during the following six months. Previous bond financing was done privately. **Proceeds**—For construction program.

Chicago & Eastern Illinois RR. (11/2)
Bids will be received up to noon (CST) on Nov. 2 at the company's office, Room 800, 332 So. Michigan Ave., Chicago 4, Ill., for the purchase from it of $3,270,000 equipment trust certificates, series H, to be dated Dec. 1, 1950 and mature in 30 equal semi-annual instalments. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

Colonial Acceptance Corp., Chicago, Ill.
Oct. 20 it was reported that it is expected company will file a registration statement in the near future covering an issue of $1,000,000 5% notes, with a 5% participating feature, plus additional common stock. **Underwriters**—Straus & Blosser and Sills, Fairman & Harris.

Columbus & Southern Ohio Electric Co.
March 9 reported planning new equity financing before the end of the year in the form of common stock. Proceeds will finance a portion of the company's construction program, which calls for total expenditures of $45,900,000 in the years 1950-1952. **Traditional Underwriter**—Dillon, Read & Co. Inc., New York.

Commonwealth Edison Co., Chicago
Jan. 10, announced the company plans $90,000,000 additional financing through the sale of securities. Neither the nature nor the time of the new financing has been determined. Probable bidders for bonds or debentures: Halsey, Stuart & Co. Inc.; Morgan, Stanley & Co.; The First Boston Corp.; Glore, Forgan & Co.

Consolidated Edison Co. of New York, Inc.
May 15, Ralph H. Tapscott, Chairman, said the company will require approximately $90,000,000 of "new money" through the sale of securities. No permanent financing is contemplated before this fall, however, and current expenditures are being financed by short-term loans, of which $16,000,000 are now outstanding. It is anticipated that $257,000,000 will be needed for the construction program over the next four years. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; First Boston Corp.

Consolidated Lobster Co., Inc.
Aug. 11 it was stated that company plans to offer additional capital stock (no par) for subscription by stockholders. At April 30, 1950 there were outstanding 34,393 shares out of 47,000 shares authorized.

● **Davison Chemical Corp.**
Oct. 31, directors approved the issuance and sale of 128,533 shares of common stock to be offered to common stockholders at rate of one share for each four shares held. **Price**—To be announced later. **Proceeds**—For plant expansion program.

El Paso Electric Co.
Sept. 19, F. C. Womack, President, announced company plans to sell $4,500,000 of first mortgage bonds. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Stone & Webster Securities Corp.; Merrill Lynch, Pierce, Fenner and Beane; Salomon Bros. & Hutzler; Kidder, Peabody & Co.; Equitable Securities Corp. **Proceeds**—To redeem $1,000,000 of 3½% bonds due 1978 and for construction program. **Offering**—Expected in November.

Eureka Williams Corp.
Oct. 4 it was announced stockholders will vote Oct. 31 on increasing authorized common stock (par $5) from 600,000 shares to 1,000,000 shares so that company may be in a position "to act promptly by broadening the

scope of business and operations." Traditional underwriters: Hornblower & Weeks and Kebbon, McCormick & Co.

Facsimile & Electronics, Inc.
Oct. 2 stockholders of this company (formerly Finch Telecommunications, Inc.) voted to create an authorized issue of 400,000 shares of class A convertible stock (par $1), all or part of which are to be publicly offered in the near future. **Price**—$2.50 per share. **Underwriter**—Graham, Ross & Co., Inc., New York. **Proceeds**—To repay indebtedness to RFC and for working capital.

● **Gatineau Power Co.**
Oct. 27, the preferred stockholders of International Hydro-Electric System asked SEC to order B. A. Brickley, trustee, to sell sufficient Gatineau common stock to pay off a $9,000,000 bank loan. Probable underwriters: Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co. and Harriman Ripley & Co.

Georgia Natural Gas Co., Albany, Ga.
Aug. 2 filed new application with FPC for authority to construct a 335-mile pipeline system in Georgia and Florida to cost about $5,100,000, which would be financed through issuance of first mortgage pipe-line bonds and the sale of common stock. Previous application was withdrawn.

● **Great Lakes Oil & Chemical Co.**
Oct. 28, it was announced that stockholders will be given the right to subscribe for additional capital stock at the rate of one share of stock for each held. **Price**—At par ($1 per share).

Hawaii (Territory of) (11/21)
Oct. 24 a plan to issue and sell $14,000,000 of general improvement bonds was reported to be under consideration. **Underwriters** — To be determined by competitive bidding.

Hearn Department Stores, Inc., N. Y. City
Oct. 16 it was announced that stockholders will vote Nov. 6 on creating an authorized issue of 40,000 shares of 5% cumulative convertible preferred stock (par $25), which are to be offered to present stockholders in the ratio of one preferred for each seven common shares held. Unsubscribed shares will be purchased by Bankers Securities Corp. of Philadelphia. **Proceeds** — From this offering, plus a $2,000,000 term bank loan, will be used to modernize company's stores and to repay certain borrowings.

● **International Minerals & Chemical Corp.**
Oct. 26, Louis Ware, President, announced stockholders will vote Nov. 27 on a proposed plan of new financing under which it is contemplated to sell to the public 200,470 shares of common stock. This would be followed by a 100% stock distribution. **Underwriters**—Previous financing was handled by White, Weld & Co. **Proceeds**—For expansion program and working capital.

Iowa Southern Utilities Co.
April 26 company said to plan sale of first mortgage bonds to finance part of its $3,200,000 construction program for 1950. Probable underwriter: The First Boston Corp.

Kansas Gas & Electric Co.
Oct. 10 it was announced that proposed sale of $5,000,000 first mortgage bonds, which had tentatively been scheduled for Nov. 27, has now been deferred, probably until 1951. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc. and First Boston Corp. (jointly); Union Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. (jointly). **Proceeds** — For construction program. (See also registration of common and preferred stocks above).

Metropolitan Edison Co. (12/12)
Oct. 9 it was reported company plans to issue and sell in December $5,250,000 of new first mortgage bonds and 20,000 shares of preferred stock (par $100). Proceeds would be applied toward the retirement at maturity of approximately $1,250,000 of 5% non-callable (assumed) bonds of York Haven Water & Power Co., and the balance toward expansion program. **Underwriters**—To be determined by competitive bidding. Probable bidders: (1) For bonds: Halsey, Stuart & Co. Inc.; First Boston Corp,; Carl M. Loeb, Rhoades & Co.; Drexel & Co.; Kuhn, Loeb & Co.; Kidder, Peabody & Co.; White, Weld & Co.; Harriman Ripley & Co. and Union Securities Corp. (jointly); Lehman Brothers. (2) For preferred: Drexel & Co.; Smith Barney & Co. and Goldman, Sachs & Co. (jointly); Carl M. Loeb, Rhoades & Co.; Kidder, Peabody & Co.; Glore, Forgan & Co. and W. C. Langeley & Co. (jointly). **Registration**—Expected to be filed soon.

Michigan Consolidated Gas Co.
Aug. 7 it was announced company contemplates sale in 1951 of about $10,000,000 of preferred stock (in addition to $20,000,000 of bonds filed Oct. 16 with SEC and 428,574 shares of common stock to be sold to parent, American Natural Gas Co.). **Underwriters**—To be determined by competitive bidding. Probable bidders: White, Weld & Co. and Lehman Brothers (jointly); Smith, Barney & Co. and Blyth & Co., Inc. (jointly). **Proceeds**—For construction program.

Michigan-Wisconsin Pipe Line Co.
July 25 company received SEC authority to borrow not more than $20,000,000 from banks. A permanent financing program provides for the elimination of these bank loans prior to their maturity, July 1, 1951, and such program will include the issuance and sale of $12,000,000 additional bonds and $3,000,000 of additional common stock (latter to American Natural Gas Co., the parent). Previous debt financing was placed privately. If competitive probable bidders may include The First Boston Corp.; Harriman Ripley & Co., Inc.; Glore, Forgan & Co.

MidSouth Gas Co.
July 31 it was announced that this newly organized company may issue and sell publicly $2,800,000 of common stock and place privately with institutional investors $6,900,000 of 20-year 3⅝% first mortgage bonds, the proceeds to be used in connection with the acquisition of the gas distribution properties of Arkansas Power & Light Co., which was authorized by SEC on Sept. 7. Initially it is planned to sell $800,000 stock and $1,500,000 of bonds. **Underwriter for Stock**—Equitable Securities Corp., T. J. Raney & Sons and Womeldorff & Lindsay.

Mississippi River Fuel Corp., St. Louis, Mo.
Oct. 4 it was announced that plans to finance the installation of additional compressor units on the company's pipeline system in Arkansas and Missouri will be supplued later. The estimated cost of the new facilities is $5,500,000. Previous bond financing was arranged for privately through Union Securities Corp., who also acted as underwriter for a common stock issue in April of this year.

Missouri-Kansas-Texas RR. (11/29)
Oct. 16 it was reported company is planning ot issue $5,700,000 of equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Lehman Brothers; Harris, Hall & Co. (Inc.); R. W. Pressprich & Co.

Monongahela Power Co.
Oct. 20 it was announced that financing plans would be announced later in connection with the construction of a new electric generating station of 150,000 kilowatts capacity at a cost of approximately $20,000,000. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Equitable Securities Corp.; W. C. Langley & Co. and The First Boston Corp. (jointly); Union Securities Corp.; Salomon Bros. & Hutzler; Lehman Brothers; Kidder, Peabody & Co. and White, Weld & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Glore, Forgan & Co. Probable bidders for preferred stock: Kuhn, Loeb & Co.; Kidder, Peabody & Co.; Lehman Brothers; W. C. Langley & Co.; Harriman Ripley & Co., Inc.

Montana-Dakota Utilities Co.
Oct. 11 company asked FPC for authority to issue $2,800,000 of 2½% promissory notes to banks to provide funds for its expansion program. These notes, together with $3,000,000 of notes authorized by FPC last May, are to be refunded by permanent financing before April 1, 1951. Traditional underwriters are Blyth & Co., Inc. and Merrill Lynch, Pierce, Fenner & Beane.

Mountain Fuel Supply Co. of Utah
June 6 company announced plans to create a new firm to take over its exploration and development of natural gas and oil operations. It will be financed, in part, through public sale by the new unit of 1,000,000 shares of capital stock (par $8). Financing plan submitted by First Boston Corp. Expected this Fall.

● **National Video Corp., Chicago, Ill.**
Oct. 23 it was reported this company contemplates the offering of additional capital stock, the proceeds of which are to be used to finance, in part, the cost of erection of a new $1,200,000 building and an additional $1,000,000 for new equipment. Most of the funds necessary for this expansion are expected to come from earnings.

New England Power Co.
April 24 it was estimated that about $37,000,000 new financing will be required to pay construction costs estimated at $40,000,000 for 1950 to 1952. Present plans are to issue this Fall $10,000,000 bonds and 70,000 to 80,000 shares of preferred stock. Probable bidders: (1) For bonds—Halsey, Stuart & Co., Inc. (2) for bonds and preferred: Harriman Ripley & Co. Inc.; Lehman Brothers; Kidder, Peabody & Co.; First Boston Corp.; Merrill Lynch, Pierce, Fenner & Beane; (3) for preferred: W. C. Langley & Co.

New Hampshire Electric Co.
Sept. 7 company applied for authority to issue 15,000 shares of $4.50 preferred stock (par $100) and 140,000 shares of common stock (no par) which are to be exchanged for presently outstanding 150,000 shares of common stock (no par) held by New England Gas & Electric Association. Latter plans to dispose of this investment prior to Sept. 1, 1951.

● **New York Central RR. (11/9)**
Oct. 20 it was announced company plans issuance and sale of $4,800,000 of equipment trust certificates, third equipment trust of 1950, to mature $320,000 annually from 1951 to 1965, inclusive. Probable bidders include: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co., Inc. and Lehman Brothers (jointly).

● **Niagara Gas Transmission Ltd. (Canada)**
Oct. 20, it was announced that this company, a subsidiary of Consumers' Gas Co., plans to build a pipe line in Canada to export from Tennessee Gas Transmission Co. Texas natural gas by way of the Niagara border. The total cost of the project is estimated at $6,000,000, of which $2,000,000 will be represented by 400,000 shares of capital stock, par $5, and $4,000,000 to be raised by the issue of bonds.

● **Niagara Mohawk Power Corp.**
Oct. 24 the company estimated that, through 1951, it will require not more than $35,000,000 of additional debt or equity financing in connection with its 1951 construction which is expected to cost $52,328,000. This amount is in addition to the sale on Oct. 31 of $40,000,000 general mortgage bonds due Oct. 1, 1980. Probable bidders for new bonds: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Kuhn, Loeb & Co.; The First Boston Corp.

North American Car Corp.
Aug. 15 it was reported that the company is to issue and sell publicly not exceeding 40,000 shares of common stock (par $10). Probable underwriter: Glore, Forgan & Co., New York. The proceeds are to be used for car rebuilding program.

North Penn Gas Co.
Sept. 25 it was announced company plans permanent financing following merger of the Pennsylvania subsidiaries of Pennsylvania Gas & Electric Corp., the parent. **Proceeds**—To retire, in part, proposed bank loans of $3,000,000.

Oklahoma Gas & Electric Co.
Sept. 28 a plan was filed with the SEC, which provides, in part, for the refunding of the outstanding $6,500,000 5¼% cumulative preferred stock (par $100) with an equal par amount of preferred stock having a lower dividend rate "as soon as the transaction becomes economically sound," and to finance part of the company's construction program by the issuance and sale of additional common stock. Stockholders will vote early in November on changing each of the 1,076,900 shares of $20 common stock now outstanding to two shares of common stock, $10 par each; and on changing the 825,000 shares of authorized but unallotted shares, $20 par, of 4% cumulative preferred stock to 165,000 shares of $100 par cumulative preferred stock. Probable underwriters: Harriman Ripley & Co., Inc.; Smith, Barney & Co.

Pennsylvania Electric Co.
Oct. 4 company was reported to be planning the issuance early next year of about $10,000,000 new bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; Merrill Lynch, Pierce, Fenner & Beane; Union Securities Corp. and White, Weld & Co. (jointly); Equitable Securities Corp.; The First Boston Corp.; Kuhn, Loeb & Co.; Harriman Ripley & Co., Inc. Proceeds are to be used to finance construction program.

● **Pennsylvania Power & Light Co.**
Oct. 26 Chas. E. Oakes, President, stated the company will require about $24,000,000 of new capital over the next three years through the sale of securities, with $15,000,000 to be raised in the next 15 months. It is reported that not over 75,000 shares of series preferred stock may be sold late this year or early 1951. **Traditional Underwriters**—The First Boston Corp. and Drexel & Co. **Proceeds**—To finance, in part, the company's construction program.

Roosevelt Mills, Inc., Manchester, Conn.
July 20 company was reported to be negotiating with a group of underwriters for a public stock offering of about $150,000 of additional capital stock at $1 or $2 per share. There are presently outstanding 1,381 shares of stock, which are closely held.

San Diego Gas & Electric Co.
July 31 it was reported that the company's original plan to issue between $8,000,000 and $10,000,000 of bonds late this year may be changed to preferred stock, depending upon market conditions. If negotiated, Blyth & Co., Inc., may handle financing. If competitive, probable bidders are: Blyth & Co., Inc.; Lehman Brothers and Bear, Stearns & Co. (jointly); First Boston Corp.; White, Weld & Co. and Shields & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Union Securities Corp.; Salomon Bros. & Hutzler. Proceeds would go toward construction program.

South Georgia Natural Gas Co., Atlanta, Ga.
Aug. 23 company applied with FPC an amended application for authority to build a 526.9 miles pipe line in Georgia and Florida which, it is estimated, will cost between $10,500,000 and $12,080,000 to be financed by sale of first mortgage bonds and the issuance of junior securities. Probable underwriter: Courts & Co.

Southeastern Michigan Gas Co., Chicago, Ill.
June 12 it was announced company plans issuance and sale of first mortgage bonds, debentures, preferred stock and common stock in connection with its proposed new pipe line in Michigan to cost approximately $1,400,000. Application is before FPC.

Southern California Edison Co.
Sept. 27, W. C. Mullendore, President, announced that company will have to raise $50,000,000 in new capital within the next 18 months to finance its 1951 construction program. Total financing may involve $55,000,000 in new bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; The First Boston Corp. and Harris, Hall & Co. (Inc.) (jointly); Shields & Co.

● **Southern Natural Gas Co.**
Nov. 1, Chirstopher T. Chenery, Chairman, announced company will soon file with SEC a financing program which is expected to comprise $17,500,000 of 20-year first mortgage pipeline bonds and 155,546 shares of additional common stock (latter to be offered for subscription by stockholders in ratio of one share for each 10 shares held). **Price**—For stock to be announced later. **Underwriters**—For bonds to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); The First Boston Corp. **Proceeds**—To repay a $20,000,000 2% bank loan due July 1, 1951, and the balance (expected to exceed $1,500,000) to provide some additional working capital.

● **Southern Production Co., Inc. (11/20)**
Oct. 26 the Attorney General of the U. S. invited bids for the purchase from him of a block of 7,020 shares of common stock. These shares represent approximately ½ of 1% of the 1,049,212 shares of stock issued and outstanding. **Bids**—Must be presented at the Office of Alien Property, 120 Broadway, New York 5, N. Y., on or before 11 a.m. (EST) on Nov. 20.

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Southern Union Gas Co.
Oct. 20 it was reported company plans to raise between $7,000,000 and $8,000,000 through the sale of new securities next Spring. **Underwriter** — Blair, Rollins & Co., Inc., handled the financing early this year of $18,000,000 of first mortgage 2⅞% bonds and $3,000,000 of 4¾% preferred stock (par $100). **Proceeds**—To repay $3,000,000 of bank loans and for construction expenditures.

● **Southwestern Gas & Electric Co. (12/4)**
Oct. 30 asked SEC authority to issue and sell $6,000,000 new first mortgage bonds, series, due Dec. 1, 1980. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler, and Carl M. Loeb, Rhoades & Co. (jointly); Lehman Brothers; Equitable Securities Corp.; White, Weld & Co. and Kidder, Peabody & Co. (jointly); Otis & Co. (Inc.); Merrill Lynch, Pierce, Fenner & Beane and Union Securities Corp. (jointly); The First Boston Corp. **Proceeds**—For construction program.

Texas Eastern Transmission Corp.
Oct. 9 it was announced company plans to raise approximately $40,000,000 of equity money, which would be supplemented by approximately $70,000,000 of first mortgage pipe line bonds (latter may be placed privately). **Underwriter**—Dillon, Read & Co. Inc., New York. **Proceeds**—For expansion program. **Increase in Capitalization**—Stockholders will vote Nov. 3 on authorizing 600,000 shares of preferred stock (par $100) and to increase the common stock from 6,000,000 to 7,500,000 shares.

Texas Illinois Natural Gas Pipeline Co.
Sept. 15 company applied to the FPC for authority to construct approximately 72 miles of new line in Texas at an estimated cost of $11,581,800. It is planned to issue first mortgage bonds for 75% of the required capital and to raise the remaining 25% through the sale of common stock. Probable underwriters—White, Weld & Co. and Glore, Forgan & Co.

Toledo Edison Co.
May 9 it was announced that the company plans to issue and sell $7,500,000 additional first mortgage bonds in December, 1950, and probably additional common stock sometime during 1951, the proceeds to be used to complete expansion program. Probable bidders: Halsey, Stuart & Co. Inc.; W. C. Langley & Co.; Kidder, Peabody & Co., White, Weld & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); First Boston Corp. and Glore, Forgan & Co. (jointly); Lehman Brothers, Harriman Ripley & Co., Inc., Bear, Stearns & Co. and Carl M. Loeb, Rhoades & Co. (jointly); Smith, Barney & Co.; Union Securities Corp.

● **Union Electric Co. of Missouri**
Oct. 30 asked SEC authority to issue and sell $25,000,000 of 30-year first mortgage and collateral bonds. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc., Kuhn, Loeb & Co. and Harriman Ripley & Co., Inc. (jointly); The First Boston Corp.; Lehman Bros.; Dillon, Read & Co. Inc.; White, Weld & Co. and Shields & Co. (jointly). **Proceeds**—To finance construction program and pay bank loans.

United Gas Corp.
Oct. 6 it was reported company will probably sell between $100,000,000 and $125,000,000 of new bonds before end of this year, the proceeds to be used to finance construction of 1,130 miles of pipe line, which, it is estimated will cost approximately $115,000,000.

United Gas Pipe Line Co.
July 25 filed with FPC for authority to build 1,130 miles of new lines in Texas, Louisiana and Mississippi at a cost of about $110,000,000, including new facilities. It is probable that the bulk of this new capital will be raised through the public sale of new securities.

United States Pipe Line Co. (Del.)
Sept. 25, it was announced that this company had been formed to build, own and operate a petroleum products pipeline from the Texas Gulf Coast to St. Louis, Chicago and other midwest markets to operate as a "common carrier." The initial financing has been arranged for privately, with no public offering expected for at least two years. E. Holley Poe and Paul Ryan, of 70 Pine St., New York, N. Y., are the principal officers of the corporation.

Utah Power & Light Co.
Oct. 17 it was announced that present plans call for the company to offer approximately $12,000,000 of new bonds and about 200,000 additional shares of common stock in 1951 to provide funds for its construction program. **Underwriters**—To be determined by competitive bidding. Probable bidders: (1) For bonds: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; Lehman Brothers, and Bear, Stearns & Co. (jointly); White, Weld & Co.; Salomon Bros. & Hutzler; First Boston Corp., and Blyth & Co., Inc. (jointly); Union Securities Corp., and Smith, Barney & Co. (jointly); and (2) for stock: Blyth & Co., Inc.; W. C. Langley & Co., and Glore, Forgan & Co. (jointly); Union Securities Corp., and Smith, Barney & Co. (jointly); Lehman Brothers, and Bear, Stearns & Co. (jointly); Kidder, Peabody & Co., and Merrill Lynch, Pierce, Fenner & Beane (jointly).

Valley Gas Pipe Line Co., Inc., Houston, Tex.
June 27 company sought FPC authorization to construct a $144,500,000 pipeline project to carry natural gas from the Gulf Coast and off-shore fields in Louisiana and Texas to markets in Indiana, Ohio and Michigan. Company is now in process of completing negotiations for its major financing requirements.

Warner-Hudnut, Inc.
July 20 change in company's name from William R. Warner & Co., Inc. was approved, but no action was taken on proposed recapitalization plan, due to market conditions. It is planned to file a registration with the SEC covering the sale of approximately 325,000 shares of the proposed new common stock (par $1) to the public through a nation-wide group of underwriters headed by F. Eberstadt & Co., Inc.

Washington Water Power Co.
Oct. 30 company received SEC authority to increase bank borrowings from $4,500,000 to $7,150,000 in order to meet its construction requirements pending permanent financing. In September, the Washington P. U. Commission denied an application to borrow $3,850,000 additional to retire 35,000 shares of $6 cumulative preferred stock of no par value. Probable bidders: (1) For stock or bonds: Blyth & Co., Inc.; Smith, Barney & Co. and White, Weld & Co. (jointly); W. C. Langley & Co. and The First Boston Corp. (jointly); (2) For bonds only: Halsey, Stuart & Co. Inc.

Western Pacific RR. (11/15)
Sept. 5 it was announced company plans issuance and sale of $22,000,000 3% first and refunding mortgage bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co. Inc.; Lehman Bros. and Bear, Stearns & Co. (jointly); Union Securities Corp. and Glore, Forgan & Co. (jointly). **Proceeds**—To retire $10,000,000 first mortgage 4% bonds and $6,133,000 convertible income 4½% bonds due 2014, and over $5,000,000 "new money." Expected about middle of November.

Worcester County Electric Co.
Sept. 25 a plan was filed with the SEC, the FPC and the Massachusetts Department of Public Utilities providing for the merger with this company of seven other subsidiaries of New England Electric System, following which Worcester County proposes to issue and sell $12,000,000 of first mortgage bonds to retire bank loans of the companies participating in the merger. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co.; First Boston Corp.; Harriman Ripley & Co., Inc.

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How High Taxes Can Raise Prices

changes in the price level, whether relatively abrupt or merely gradual, when not caused by substantial additions to the volume of currency, may not be inflation in the generally accepted sense, it nevertheless can have the same effect on the national economy or on individual and public morale as excessive issues of currency, such as has characterized most wartime periods. And as already stated, since taxes can and frequently are a cause of higher prices, they can, on occasions, be a cause of a severe rising trend in prices.

Question of Amount and Amplitude of Tax Increases

Whether taxation can be a source of higher prices, of course, depends on the character and impact of the taxes, and the possibility or probability of their shifting and their final incidence. This is a complex subject. Formulas and theories of tax shifting that have been devised have not generally worked out in practice. Thus, ever since Adam Smith laid down the principle that taxes on wages could be shifted, and that even when levied on skilled employments and professions, could be passed to others whom they serve, because their compensation "necessarily keeps a certain proportion to the emoluments of inferior trades," it has been widely accepted doctrine that taxes on wages or fees are not generally borne by the workers, but by employers, whose profits are proportionately reduced thereby. This is the so-called "classical theory," but it amounts to a generalization that has not been always borne out by the facts. As stated by the late Prof. Edwin R. A. Seligman (who, probably more than any other economist, living or dead, delved into the perplexities of the incidence and shifting of taxation), "whether or not a tax on wages will be shifted on profits, even in the long run, depends entirely on the relative strength of the labor organization and on other conditions which may compel the employer to an increase of wages equivalent to the amount of the tax." If Prof. Seligman were living today he, undoubtedly, would have to acknowledge that because of the existing strength of labor organizations and the present upward phase of the business cycle (i.e. full employment under artificially expanded consumer demand), taxes on wages and salaries have already been shifted and are still being shifted to employers, who in turn, because of large and expanded consumer buying, are enabled to add the cost thereof to prices of their products. Thus, much of the burden of high taxes can spread over the whole economy in the form of higher prices. This means a general diffusion of such taxes.

Taxes on Profits Can Be Shifted to Consumers

As regards taxes on profits, which, according to classical economy theory, cannot be shifted because profits and rents are considered as "residuals" and "differentials," having no available channel for relief of their burden, experience also tends to prove that they can, at certain levels, be a factor in rising prices. One merely has to review the trends of corporate profits in the war and postwar years to get evidence of the shiftability of taxes on net income under conditions of high consumer demand. The rate of corporate earnings, in spite of the high wartime corporate income tax levy in this period has been kept at a level as high, if not higher, than any other period within recent times. Maintenance of the price level and the ability to shift higher costs, including taxes, to the consumer, undoubtedly has been the chief cause of this.

Whether higher taxes, particularly individual income taxes at the present time will be inflationary or non-inflationary, of course, depends on a number of circumstances. These circumstances include such matters as the amount and amplitude of the increases; the economic position of the taxpayers, either as groups or as individuals; the present phase of the inflation or business cycle; and, lastly but not least, the psychological attitude of the public toward spending or saving of private incomes (i.e. "the propensity to consume," as the late Lord Keynes states it).

If, for example, taxes are levied on any group to the extent that the living standards of that group are not appreciably impaired, the tax does not result, as a rule, in less consumer spending, but rather in less saving and investment. This appears intrinsically to be the situation today at present tax levels. But, workers or wage-earners in the higher income brackets, if they have the economic power (as they apparently do at present), can as readily pass on their taxes to their employers or clients as those in the very lowest income brackets. Hence, a raising of taxes on high-income groups, such as skilled workers, professional men and executives, should have an inflationary effect, since the higher earnings they demand because of higher taxes, merely means higher prices.

All this would lead to the inference that excessively high income and corporate taxes, if they can be shifted to consumers in the form of higher prices, may be a cause and not a prevention of inflation, if, by inflation, we mean rising prices. Such taxes, in their effects, are not necessarily an offset to enormous additions to the supply of money and demand deposits arising from heavy government spending. On the other hand, if, for some cause, such increase in taxes cannot be shifted by individuals and corporations, they may have an equally deleterious effect; namely, they will tend to curtail savings and investment and thus, in the end, produce unemployment and economic depression.

Are There Other Remedies?

From the arguments presented above, it looks as if the struggle to curb inflation is hopeless. Such, however, is not the case. A rising price trend can be curbed, not only by natural economic laws, but also by a sound public morale, and the instruments of central banking and fiscal policy. When prices rise, due to heavy consumer demands, there is frequently a point reached where consumers balk, and such buyers' strikes are not unknown in our own history. Such a buyer's strike put an end to the inflationary period of the early 1920s. Moreover, heavy consumer demands should lead to greater and more intensified production of goods and services, and by this increase in supply will normally tend to hold down prices. Likewise, higher prices and increased production should lead to greater demands for capital, with resulting stepped up interest rates. In fact, higher interest rates are a powerful deterrent to inflation, if not offset by other factors such as excessive speculation. It might be said that nothing has contributed so much to our postwar inflation than the Treasury's low interest rate policy, combined with a policy of government financing through short-term obligations acquired almost solely by commercial banks. Let this policy be gradually abandoned, and a real weapon against inflation will be put to work.

Another remedy against inflation is harder work by the population and greater production, combined with improved mechanical techniques. But if we are to have more production it should not come about through over-expansion of credit. Certainly, we have the lesson of the postwar housing programs in creating a powerful upward pressure on prices. The easy mortgage market, the government mortgage guarantees, the veterans' loans and other liberal features of the postwar housing legislation has undeniably been a contributing factor in the current inflation. Until these pressures are removed, the fight against inflation is almost hopeless.

Finally, there is the matter of government civilian spending. More economical and restricted spending of both Federal and local governments has, thus far, been given only "lip service." Until unnecessary and ill-advised extravagance in government is abated, the inflationary trend will be constant and permanent.

Our Reporter's Report

Buyers Still Choosey

Institutional buyers are still inclined to be highly selective in their buying of new issues. And consequently this decides whether a given deal is a fast one or a slow mover.

That became apparent again this week when Milwaukee Gas Light Co. sold $27,000,000 of new first mortgage bonds and $6,000,000 of new debentures, and Niagara Mohawk Power Co. disposed of $40,000,000 of new bonds.

The Milwaukee bonds, rated BAA, were priced to yield 3.05% and the Niagara issue offered a yield of 2.82% for an A rating. The first mentioned issue moved out quickly while Niagara Mohawk lagged.

Some people seemed to feel that the "name" had considerable weight, since Milwaukee Gas is something of a scarce name, while underliers come ahead of the new Mohawks.

Bidding Is Close

The week's largest undertaking, Niagara Mohawk's new bonds, brought out a total of four bids, the highest being 100.631 and the lowest 100.169, all for a 2⅞% coupon rate.

So the differential between the winning bid and the lowest was only $4.62 a $1,000 piece while the bid of the runner-up was only $2.21 below that of the successful group.

Accordingly the apparent lack of immediate interest on the part of buyers could not be ascribed to any indicated wide variation as regarded pricing.

Slow Week Ahead

Most of the new securities brought out this week moved ahead to ultimate investors in fairly good style. But where there was some dragging, it looks as though there'll be ample opportunity to work off the loose ends in the week ahead.

Those who follow the new issue calendar closely were moved to point out that only a smattering of new municipals are slated to reach market next week.

With election day falling on Tuesday and Armistice Day at the week-end, the week promises to be decidedly slow so far as new issues are concerned. Meanwhile bankers and dealers will have an opportunity to work off part of the stocks standing on shelves.

Joins Louis Love Co.

(Special to THE FINANCIAL CHRONICLE)

MENLO PARK, Calif. — John S. Hassan has become associated with Louis A. Love Co., 700 Hermosa Way. He was formerly with Conrad, Bruce & Co. and First California Company.

Taylor in New Connection

(Special to THE FINANCIAL CHRONICLE)

OAKLAND, Calif. — Philip B. Taylor has become associated with Investors Diversified Services, Inc. He was formerly with William Leib & Co. of San Francisco, and with Hannaford & Talbot.

Midwest Exch. Members

CHICAGO, Ill.—The Executive Committee of the Midwest Stock Exchange elected to membership: H. I. Josey, H. I. Josey & Co., Oklahoma City, Okla.; Carleton L. Hoadley, Hincks Bros. & Co., Inc., Bridgeport, Conn.; Sidney J. Mohr, Jr., Thornton, Mohr & Co., Montgomery, Ala.; Arthur C. McCall, Alester G. Furman Co., Greenville, South Carolina; Robert G. Lewis, Robert G. Lewis & Co., Rockford, Ill.

With Standard Inv. Co.

(Special to THE FINANCIAL CHRONICLE)

PASADENA, Calif.—Reese T. Coradine has become associated with Standard Investment Co. of California, 87 South Lake Avenue. He was formerly with Floyd A. Allen & Co., Oscar F. Kraft & Co. and Gross, Rogers & Co. In the past he was in the investment business in Chicago.

Joins Walston, Hoffman

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif. —Robert J. Rugen has become associated with Walston, Hoffman & Goodwin, 265 Montgomery Street, members of the New York and San Francisco Stock Exchanges. He was formerly with Merrill Lynch, Pierce, Fenner & Beane.

First California Adds

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—Lloyd E. Burton has been added to the staff of First California Company, 300 Montgomery Street.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—Pull up a chair before the warm fire, take off your shoes, fill your pipe with tobacco or your glass with vodka and relax, boys and girls, for the Administration has got itself a nice new foreign policy groove.

There "ainta going to be no war no more" — for three years — so long as the government can spend an immensity of funds on its own and foreign military arms, on economic aid for the Europeans and the Asiatics, and so long as it can besides spend and spend and spend, it also can tax and tax and tax, and control and control and control.

Obviously there has got to be a lot of shouting about the dangers of war, the dangers of inflation, and so on. This is because the Administration does want to spend vast sums of money, increase taxes a very great deal, and be allowed to continue to carry forward the controls which go with maintaining a semi-war state. This can't be done without some shouting to keep the masses of voters in line and some of the voices which do the shouting will sound a little raucous.

For you, however, there is no real need to worry about a war so long as the money is spent in vast quantities for foreign and domestic armaments, the taxes really dig deep, and the controls are left on. You don't need to worry, subject to these conditions, for the Administration has got itself a new foreign policy groove.

A "groove" connotes a pattern of plans by which everything will be all set and the future peace of the world can be assured.

Thus the first groove of the Administration's blueprint for world peace came after World War II. It included the United Nations, the World Bank, the Monetary Fund and later, the British loan. Everybody wanted peace — so it was thought—and the UN would organize that peace. General economic dislocations caused by the war would be repaired by the World Bank and Monetary Fund, and the British loan provided special aid at a key point.

True, it turned out that everybody did not in fact want peace, that the UN couldn't assure peace, and that the Reds were getting mighty aggravating the way they were jostling people around, and that for some reason the Bank and Fund were not the solutions of all pressing economic problems.

So the Administration got itself a new foreign policy groove. ECA in four years would do the economic job. It would set Europe on its feet, repair the ravages of war, restore production and hence make possible trade. It would not only restore morale and the will to fight via rehabilitating the western European economy, it would rehabilitate factories and thus make it possible for WE to provide the means to fight. In the meantime a flock of buzzing flyers ready to carry A-bombs would keep the Reds scared off.

This second groove seemed to get rubbed out with *l'affaire* Korea, so now the Administration has settled into a new groove.

For three years, following the new groove, the U. S. will spend not less than $30 billion on its own armaments. It will spend other billions on foreign arms. It will spend something under $3 billion for foreign economic aid. This includes not merely a continuation of ECA by whatever name it may be called, but aid for Turkey, Iran, Burma, Indo-China, Formosa, Siam, and Korea.

After three years of this program western Europe will be so strong that the Reds won't dare march in. Meantime two other provisos have been added—provided (1) the U. S. does not let up on its own military program and (2) provided the U. S. convinces the rest of the world that it has no aggressive designs.

Meanwhile the Reds will leave the military build-up of western Europe alone, or at least free from outside military interference. Of this you may be sure, for three reasons, or so goes the thinking. The Reds are afraid of the problem they would have pacifying the peoples of western Europe if the invasion were external and military. Second, the Reds are still convinced that the strain of armaments will ultimately break the United States and maybe the western world. Finally, the Reds still have hopes of taking western Europe by revolutions from within.

Although U. S. military leaders a scant month ago pulled the Administration out of the bottom of the well, the Administration has got amazingly over its fright. Best reports are that the Administration is now smugly satisfied the Reds will not break out anywhere else so as to cause a conflict comparable with Korea. Korea is now seen as "just a Red blunder." The U. S., by gosh, showed the Reds what happens when they break out, and they probably won't try it again in a long time.

So just in three years the battle will be won so long as the U. S. spends and spends and spends, taxes and taxes and taxes, and controls and controls and controls.

What about after three years? Well, the newest Administration groove isn't any longer than three years.

* * *

The 1950 version of the "Hyde Park Agreement" has been signed. In 1941 President Roosevelt and Canadian Prime Minister King, now both deceased, met and agreed that then also the "economic efforts of the two countries be coordinated for the common defense of both countries and that the production and resources of both countries be used for the best combined results," to quote State Secretary Acheson in explaining the new agreement.

Under the Hyde Park Agreement the U. S. in effect saw to it that through purchases in Canada the Dominion's war effort would never hesitate for lack of U. S. dollars. In the case of Canadian Mutual Aid (Dominion form of Lend-Lease) the U. S. "lend-leased to Britain" the U. S. components needed for military or other goods given away to mutual allies by the Canadians.

There is little in the new agreement to limit or define its scope. It is simply a vast undertaking that the two countries shall get together and exchange and control materials for the best combined military effort.

For the present its scope will be pitched primarily at coordinating materials controls and use. To the extent that Canada expands its present military procurement program, now small in even relative income and per capita terms compared to the U. S. effort, then the U. S. will buy heavily in Canada to see to it that the Dominion, habitually pressed in the past for U. S. exchange, can get the dollars.

This means that eventually a great deal of direct procurement by U. S. forces will be made in Canada. The "Buy American" act supposedly requires purchases for U. S. forces in the United States, with two exceptions. One is where the needs of the service make it desirable to purchase in another country. The second is where the foreign price is lower.

It is perhaps generally true that Canadian manufactured goods are more costly overall than those produced by the U. S. By simply concentrating heavily upon some items, the U. S. might be able to procure enough of them from the Dominion so that quantity production would bring the price down to comparable levels in the U. S. In other cases the "Buy American" act could simply be waived.

In any case, long range, the U. S. is going to buy heavily eventually in Canada. In the light of recent developments affecting Canada's exchange position, this may produce interesting results. The Dominion Finance Minister recently predicted that U. S.-Canadian merchandise accounts will come in balance this year. Another Dominion official predicted that by the end of this calendar year Canada will produce half her own oil requirements and in a few years, all of them—and oil has been one of Canada's drains on its U. S. exchange.

The time may not be far off when existing remaining Canadian regulations on the free return of investment money may be relaxed.

* * *

Before accepting finally the thesis that U. S. military expenditures must certainly run not less than $30 billion annually and eventually over $40 billion, one development will have to occur. That is George Marshall's report, due about Dec. 1, on what he thinks defense needs should be for fiscal '52. This will have a bearing on the projected 3-year program.

It is understood that one of the first things Gen. Marshall decided when he took over the Defense Secretaryship was to go over, piece by piece, in considerable detail, all the projected fiscal year 1952 expenditures of the Armed Services. Previous estimates were gotten up by the Services under a general mandate, before Gen. Marshall took over, that in effect the sky is the limit.

* * *

Whether the President's announcement that he was thinking of calling Congress back sooner than Nov. 27 was or was not a political gesture, the result of the earlier session could prove little more helpful in the way of enacting concrete legislation.

Unless war breaks out elsewhere, the Congress is unlikely to pass anything but tag ends of things and get a good start with hearings on corporation income taxation.

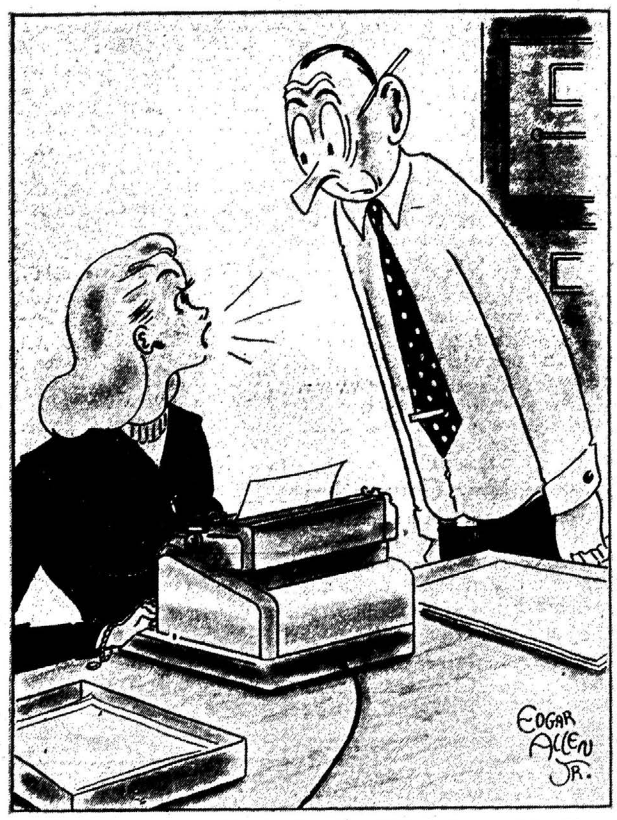
* * *

There is little sympathy in informed circles with the proposition advanced by Sen. Ralph Flanders (R., Vt.) that in place of an excess profits tax, the corporation income tax can simply be raised to a much higher level.

Instead, politics demands that there be something resembling an "excess profits tax," even if it be called instead a "war profits tax." There is a very definite belief in conservative circles that the rate should not be higher than 75%, and that overall EPT, or whatever it is, must be much more liberal than the type of former EPT. However, the final form to come out of Congressional Committee is far from determined at this stage, even at the staff level. Staff experts are still trying to find a way to hit war profits without promoting the kind of inflation the last war's EPT occasioned, yet severe enough to get somewhere with those "liberals" demanding corporation blood.

(This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.)

BUSINESS BUZZ



"Oh, I never even think about quitting time while I'm working—after all, it's still two hours and twenty-two and a half minutes until five o'clock!"

FIC Banks Place Debs.

A successful offering of an issue of debentures of Federal Intermediate Credit Banks was made Oct. 19 by M. G. Newcomb, New York fiscal agent for the banks. The financing consisted of $63,395,000 of 1.70% consolidated debentures dated Nov. 1, 1950, and due Aug. 1, 1951. The issue was placed at par.

The proceeds, together with $18,595,000 cash in treasury, were used to retire $81,990,000 of debentures maturing Nov. 1, 1950 ($2,565,000 additional due on the latter date were retired prior to maturity).

As of the close of business Nov. 1, 1950, the total amount of debentures outstanding will amount to $535,890,000.

Perrin, West & Winslow Elect Officers

BOSTON, Mass.—As of Oct. 30, 1950, the following have been elected officers and directors of Perrin, West & Winslow, Inc., 24 Federal Street, Boston: Thomas A. West, President and Treasurer; Andrew N. Winslow Jr., Secretary; John Perrin, Chairman of the Board; W. Richmond Arnold, Vice-President.